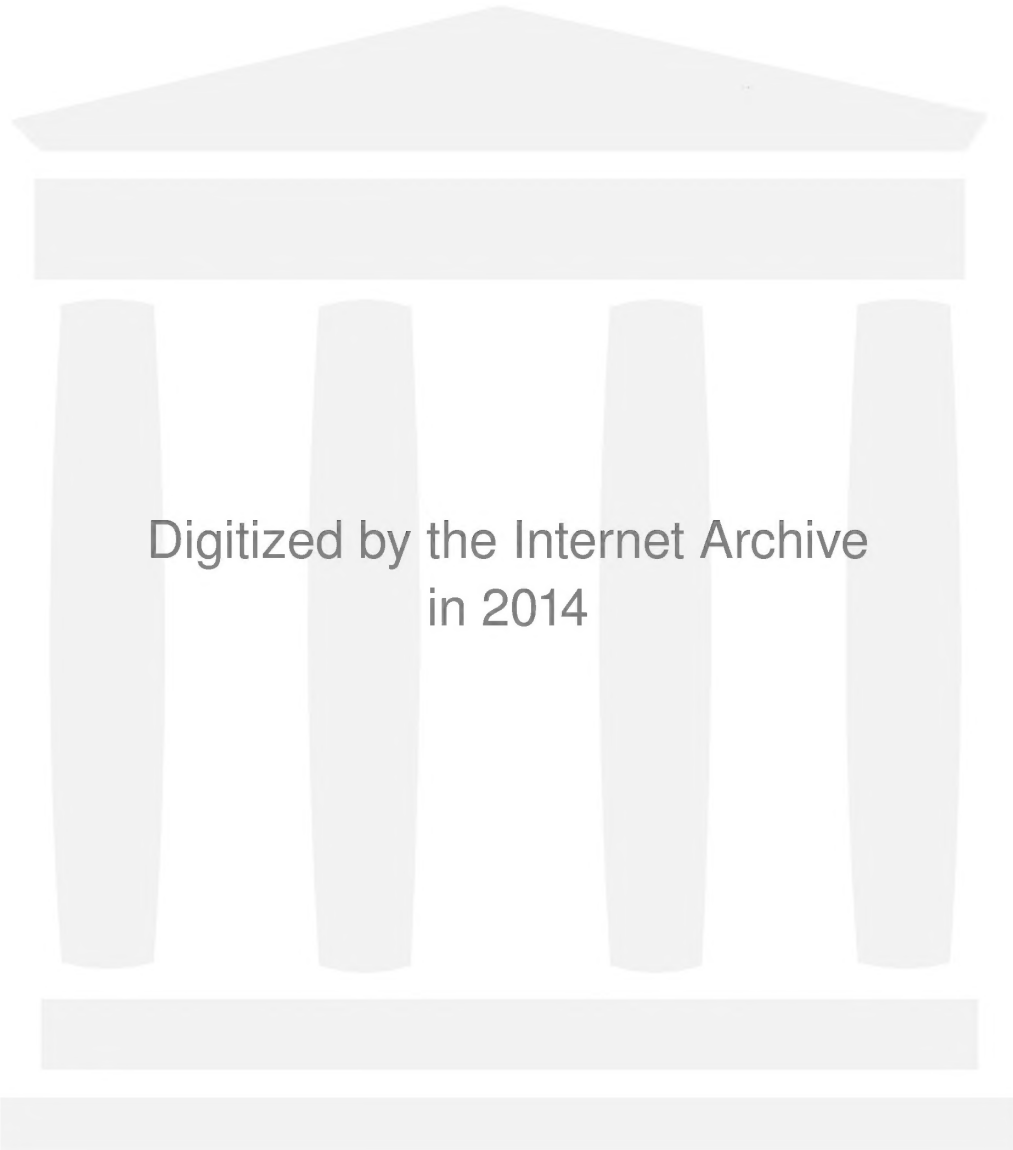


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**Penal Code of California
1915, Section 623**



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COMPAQ

THE MAKING OF A COMEBACK

PAGE 146

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ECKHARD
PFEIFFER

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The 1993 Lexus LS400: The Pursuit Continues.



over 50 refinements. Of course, that was at last count.



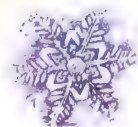
Three years ago when we introduced the LS 400, it was as nearly perfect. Our engineers took that as a challenge.



New audible remote entry with adjustable volume control.



Sensors trigger pre-tensioning front seat belts to cinch during a severe frontal collision.



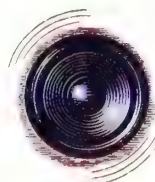
Outside temperature display lets you know what you're in for.



Driver's- and passenger's-side airbags are set to deploy in the blink of an eye.*



An air filtration system helps reduce pollen, dust and airborne particles.



An available Nakamichi audio system that puts many home systems to shame.



If power failure occurs during a collision, dual airbags are deployed by a backup system.



Optional, pocket-size phone ingenious, it's not only portable, it's voice-activated.



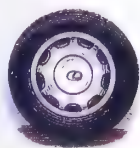
Larger, vented disc brakes provide added security even in adverse conditions.



A light sensor remembers to turn your headlights on or off, even when you forget.



Redesigned outside mirrors help prevent buildup of rain and snow.



Wider, lower profile tires hug curves more aggressively.



Both front seats adjust to most any position your heart (or back) desires.



Tire noise has been altered to a pitch less noticeable to the human ear.



The 1993 LS400 sets a new standard for the world.

HP's low-priced PCs don't surrender features.



486N Specifications

- 32-bit Intel SX, DX and DX2 processors at 25, 33, 50 and 66 MHz
- 1 MB RAM, expandable to 48 MB
- Local bus integrated Ultra VGA™ Video with graphics accelerators
- 85-430 MB hard drive
- 4.5" floppy drive
- Three 16-bit expansion slots
- ROM-based internal diagnostic and system guide
- Integrated Flash BIOS and boot-ROM
- Multilevel hardware security
- Chip-upgradable

*Suggested U.S. list prices for HP 486, 485N and HP 486, 486N Model 1 PCs. Monitor not included. *Press 1 for HP First reference Document ID 6310, 6311, 6313. Microsoft is a U.S. registered trademark of Microsoft Corporation. Windows 3.1 is a product of Microsoft Corporation. The Intel Inside logo is a U.S. trademark of Intel Corporation. © 1992 Hewlett-Packard Company. PPG 656





Now we're calling the shots.

Those cheap PCs don't stand a chance. Hewlett-Packard has introduced 486 models starting at under \$200*. With prices of our entire line HP 486 and 386 PCs down as much as 42% in the last 9 months.

But our low prices have not come at the expense of quality, performance or the features you want.

They scream through those high-powered Microsoft® Windows and 3D projects, our revolutionary local-bus technology and fast graphics accelerators really fly. And, with

true multivendor compatibility, HP PCs fit easily into your computer environment.

We've also made big advances on the networking front. Many models come with preinstalled network interface cards and boot-ROMs. And, of course, HP PCs are fully tested and certified with all the major NOSes.

Our security features are so convenient your people will actually use them. And our 486 desktop PCs are chip-upgradable. So you can count on always having the latest and greatest.

All this for as little as \$1,200! And for a few hundred dollars more, we'll throw in a hard drive with preinstalled DOS 5.0, Windows 3.1 and a mouse.

To be a winner in the price wars, call **1-800-752-0900, Ext. 7094** for your nearest HP PC dealer. Or call **1-800-333-1917** from your fax handset for immediate details.† Then start calling the shots.



**HEWLETT
PACKARD**



PC FEVER: COMPAQ'S ROSS COOLEY SAYS "WE WERE DANCING IN THE HALLS" WHEN THE COMPANY'S PROLINE COMPUTERS SUCCEEDED

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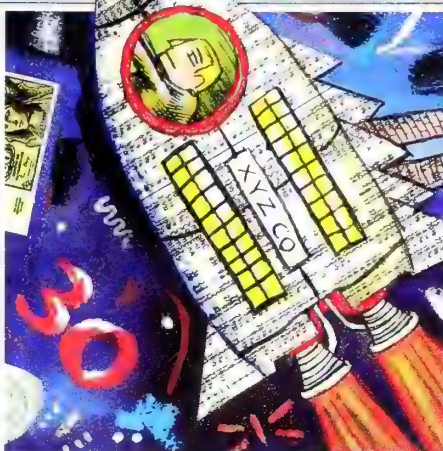
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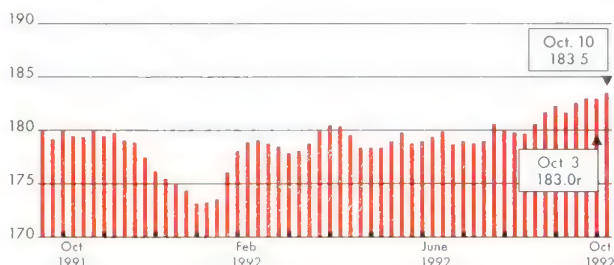
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BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 2.2%

1967=100 (four-week moving average)

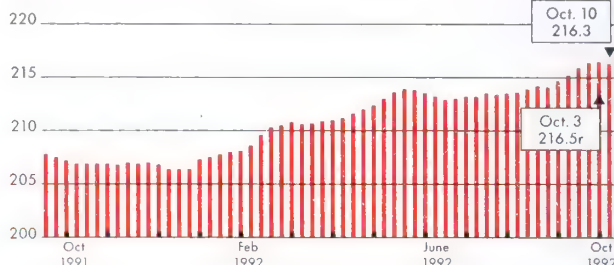


The **production index** increased during the week ended Oct. 10. On a seasonally adjusted basis, rail-freight traffic, along with output levels of trucks and coal, advanced. Steel, auto, crude-oil refining, paperboard, paper, and lumber production declined, while electric power output was unchanged for the week. Before calculation of the four-week moving average, the index stood at 182.3, little changed from a revised level of 182.2 in the previous week.

BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: -0.1%
Change from last year: 4.5%



The **leading index** fell for the week ended Oct. 10, as only one indicator gave a positive reading for the economy's future. That was an improved growth rate for real estate loans. However, a large deterioration in the growth rates of M2 and materials prices and lower stock prices were big negatives. Bond yields and the number of business failures were unchanged from the previous week. Before calculation of the four-week moving average, the index slipped to 216.2 from 216.5.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/17) thous. of net tons	1,693	1,614#	0.9
AUTOS (10/17) units	116,649	117,248r#	-14.6
TRUCKS (10/17) units	91,388	87,206r#	3.0
ELECTRIC POWER (10/17) millions of kilowatt-hours	53,810	53,879#	2.9
CRUDE-OIL REFINING (10/17) thous. of bbl./day	13,469	13,492#	3.7
COAL (10/10) thous. of net tons	18,809#	18,470	-5.7
PAPERBOARD (10/10) thous. of tons	785.8#	807.0r	-1.4
PAPER (10/10) thous. of tons	751.0#	762.0r	-5.1
LUMBER (10/10) millions of ft	466.8#	476.9	-6.8
RAIL FREIGHT (10/10) billions of ton-miles	21.7#	21.4	1.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (10/21)	122	121	131
GERMAN MARK (10/21)	1.51	1.46	1.70
BRITISH POUND (10/21)	1.61	1.71	1.71
FRENCH FRANC (10/21)	5.12	4.97	5.77
CANADIAN DOLLAR (10/21)	1.24	1.24	1.13
SWISS FRANC (10/21)	1.35	1.30	1.48
MEXICAN PESO (10/21)	3,118	3,096	3,062

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (10/21) \$/troy oz.	343.750	343.750	-5.1
STEEL SCRAP (10/20) #1 heavy, \$/ton	89.50	89.50	-7.7
FOODSTUFFS (10/19) index, 1967=100	196.4	198.4	-5.3
COPPER (10/17) c/lb.	104.5	105.8	-5.3
ALUMINUM (10/17) c/lb.	54.0	55.0	1.9
WHEAT (10/17) #2 hard, \$/bu.	3.61	3.56	0.3
COTTON (10/17) strict low middling 1-1/16 in., c/lb.	50.65	49.94	-12.9

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/16) S&P 500	409.49	405.88	
CORPORATE BOND YIELD, Aaa (10/16)	7.96%	7.92%	
INDUSTRIAL MATERIALS PRICES (10/16)	96.9	97.1	
BUSINESS FAILURES (10/9)	349	349	
REAL ESTATE LOANS (10/7) billions	\$399.7	\$396.9r	
MONEY SUPPLY, M2 (10/5) billions	\$3,420.3	\$3,445.5r	
INITIAL CLAIMS, UNEMPLOYMENT (10/3) thous	383	399r	

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Sept.) annual rate, thous.	1,256	1,239r	2
INDUSTRIAL PRODUCTION (Sept.) total index	108.6	108.9r	
CAPACITY UTILIZATION (Sept.)	78.4%	78.7%r	
CONSUMER PRICE INDEX (Sept.)	141.3	140.9	

Sources: Commerce Dept., Federal Reserve Board, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/5)	\$1,000.6	\$992.0r	1
BANKS' BUSINESS LOANS (10/7)	277.4	278.6r	
FREE RESERVES (10/14)	930	946r	2
NONFINANCIAL COMMERCIAL PAPER (10/7)	145.2	136.7	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (10/20)	2.97%	3.53%	5.2
PRIME (10/21)	6.00	6.00	8.0
COMMERCIAL PAPER 3-MONTH (10/20)	3.46	3.14	5.3
CERTIFICATES OF DEPOSIT 3-MONTH (10/21)	3.42	3.11	5.3
EURODOLLAR 3-MONTH (10/17)	3.29	3.10	5.3

Sources: Federal Reserve Board, First Boston

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Kuala Lumpur, Jakarta, Sydney, Melbourne



I'm only

"Being a young global company can cause the occasional growing pain but it has a lot of advantages. We can avoid the mistakes made by our older brothers. For us, decentralization

doesn't mean turning everything upside down. It has always been a part of our culture. We have 40 highly independent business units. My job is to set the framework. And give

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Aarnout A. Loudon, Chairman of the Board of Management of Akzo:

the boss

to move within it. I'm involved, but I don't
re. Our business units are both global
s and local entrepreneurs. It's all part of
ing the right chemistry."

CREATING THE RIGHT CHEMISTRY



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WHY CREDIT UNIONS LOOK SO GOOD

I feel compelled to respond to "Credit unions are oases in a desert of banks and thrifts" (Economic Trends, Oct. 12) about Veribanc Inc. reporting that the credit-union industry earns an average annualized return on assets of 1.25%, as compared with the commercial-banking industry return on assets of 0.94%.

Your readers should note that credit unions pay no federal income tax. If credit unions were subject to the same taxes that banks and other corporations are, I would dare say that the annualized return on assets produced by credit unions would be substantially less than what was reported. Do you suppose it's time they paid their fair share?

Tim Cochrane

President, CEO

Six Rivers National Bank

Eureka, Calif.

COLLEGE FUNDING: A COURSE IN REALITIES

The article "College cash: A study guide" (Personal Business, Sept. 14) was certainly an eye-opener for the thousands of families already strapped beyond comprehension with debt on home, cars, and other personal needs.

Before a young person even reaches maturity, he/she can now be in debt to the tune of \$54,000. That's incredible! The sad part of all of this is that the students and their parents are going to be forced to go into this kind of debt.

If this economy does not pick up in the next year, these students and their parents will have no recourse but to default on these loans in record numbers. Since the lending institutions are guaranteed their money, the taxpayer again will foot this bill.

Where does all of this stop? It is laughable that Congress passed a bill in such hurried fashion, making the program sound lucrative for these families in need of college money. Yet, in the same breath, Congress did not make more Pell Funds available for use, only loans. I would guess that since our government sees no need in lowering the

deficit, its mentality is to see that consumer also is just as deeply into same soup.

Carol J. Baugh

College Consultant Service

Mentor, O

PROP 167: DON'T WRITE OFF CALIFORNIA YET

I read with some disappointment your article "California, here I go" (Top the News, Sept. 28) that carried my picture. While it was very accurate describing the impact that Proposition 13 would have on attracting jobs to, or retaining jobs in, California, its tone is that California was "once" business' promised land... described improperly in perspective. California is not lost—at least yet. People are willing to fight for her.

The job creators in California, for the first time in many years, finally understand that they must make themselves heard by the California legislature. The California Chamber of Commerce, California Business Roundtable, Merchants & Manufacturers Assn., and over 400 other business organizations are supporting most of the recommendations to cure California's ills set forth in the Ueberroth Report (the Council on Competitiveness) presented to the governor and to the legislature at the end of April, 1992. Business leaders feel that California is a state worth saving and intend to fight for it rather than abandon it.

Wilford D. Godbold

President, C

Zero Co

Los Ange

SIEMENS IS RIGHT UP IN HITACHI'S CLASS

Your article "Inside Hitachi" (Company Story, Sept. 28) provided an interesting discussion of a respected competitor. I feel obliged to point out, however, that you have somewhat overstated the position of this company within the global electrical/electronics industry. For Siemens is well known to address a full range of business sectors suggesting as being unique to Hitachi. Although

BUSINESS WEEK
NOVEMBER 2, 1992 ***3291
ISSN 0007-7135



Published weekly, except for two issues combined in January by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948). Executive, U.S. Office: Circulation and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Telex: 127960. International Tel.: 3230. Cable: McGraw-Hill New York, T.W.Y. 710-581-4879. U.S. subscription rate \$44 per year, 2 years, \$74.95, 3 years, \$99.95. Single copies \$2.75. Write for rate and other information. Subscriber service: 1-800-635-1200. TDD: 1-800-554-1579.

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Albert Hoser
President, CEO
Siemens Corp.
New York

THE LONG-TERM VISION AT PAC TEL

Your article "The Baby Bells' painful adolescence" (Special Report, Oct. 5) incorrectly stated we had expected profits from foreign ventures to be "kicking in" at this time. Your "Portrait of the Boss" (Cover Story, Oct. 12) feature may have reinforced this misimpression by stating these operations "have yet to pay off."

In fact, we have neither anticipated nor projected short-term profits in these operations. We have invested in these unique opportunities to build long-term gains and do not expect profits from our recently completed German cellular system before 1994.

If we continue to win additional licenses, the requisite investment could mask positive returns beyond that time. Our goal here is to deliver long-term value to our owners.

Sam Ginn
Chairman, CEO
Pacific Telesis Group
San Francisco

SHEARSON DIDN'T ACT IMPROPERLY WITH COMPUTERVISION

Your article, "The fingers pointed at Shearson" (Finance, Oct. 19) is an unbalanced account of Shearson Lehman Brothers' role in the initial public offering of Computervision Corp. common stock. The article leaves the impression that Shearson could not properly act as a lead underwriter, given its ownership interest.

There is no basis to this claim. Investment banks traditionally act as lead underwriter of offerings where they have an ownership interest. Of the 14 reverse LBOs involving investment-bank owner-

ship since 1990, the owner (or partial owner) has been the lead underwriter in all but a single instance where there was an initial public offering. The reason for this is simple: Investors expect the investment banks to take a lead role in stock offerings of this kind.

Underwriters have clearly defined responsibilities, but they do not extend to events over which they have no control—in this case, the unexpected decline of Computervision stock. The article should have taken more care in making this important distinction.

Howard L. Clark Jr.
Chairman, CEO
Shearson Lehman Brothers
Holdings Inc.
New York

Editor's note: Samuel L. Hayes III, a professor of investment banking at Harvard business school who was quoted in our story, says he was wrong in saying that it is unusual for an investment bank with an ownership interest to be a lead underwriter in the offering. Professor Hayes does believe, however, that this practice represents a conflict of interest.

ONLY SPENDING CUTS CAN REDUCE THE DEFICIT

Neither a constitutional amendment nor legislation can balance the budget ("Can't live with 'em, can't live without 'em," Economics, Sept. 7). And if the President doesn't have line-item veto authority, neither can he. Only Congress can enact the spending cuts necessary for any rational deficit-reduction effort, and Congress, controlled by Democrats, has yet to meet an entitlement program it didn't like. If, by some freak occurrence, enough people realize before the election that government has screwed up enough programs, maybe the immense burden that the health care, job-training, environment, and welfare programs (and related taxes) Bill Clinton and a Democratic Congress would impose can be avoided.

Never mind, I'll just go ahead and liquidate my portfolio.

R. Brian Weeks
Arlington, Tex.

WHEN CHEAP DOLLARS HELP U.S. EXPORTERS, AND WHEN THEY DON'T

There's no doubt that the dollar drop has a bright side for some U.S. exporters, and a low dollar may increase exports ("The buck stops where?," International Business, Sept. 7). True—as long as it's stable and reflects the true value of a currency. An undervalued and

highly fluctuating dollar, as we have seen in the past two years, just creates confusion and is not a healthy base for export of U.S. products.

Many European managers would like to do business with U.S. companies, but a stable dollar, even at a higher level, would be much more desirable to companies in Europe than this fluctuating dollar, which makes it hard to plan even months ahead.

I've seen many promising projects and sound business efforts of American businessmen being jeopardized by high fluctuations in the exchange rate of the dollar to major European currencies. If we can one possibly plan to use U.S. dollars on a large scale in product rolled out in a year or so if there's a chance that all of a sudden, these prices may be easily 20% more expensive than planned on today?

Mark Bisco
Bellevue, Wash.

THE FAULTY MATH OF CLINTONOMICS

I read with dismay Alan S. Blinder's article entitled "Clintonomics: Fighting the merits along with the math" (Economic Viewpoint, Sept. 21). In this article, Blinder states that Clinton's proposed government mandates for maternity leave, health insurance, and the environment would have no net impact on jobs, since for every job lost there would be a new job created. For example, he contends that if government mandated "a highly polluting industry clean up its act, that industry might have to contract." However, he says that the "labor and capital [would] migrate to other, less polluting industries... so jobs aren't lost in the long run. They just move." Blinder's new math would have us believe that "1 - 1 = 0," i.e., no net job loss.

Unfortunately, in a global economy, mandates, if not well-conceived or not done by well meaning officialdom, can drive jobs, capital, and industries overseas, where mandates are less severe and U.S. jobs would be certainly lost. This old fashioned math would yield "1 - 1 = -1," which, I believe, would not be in the long-term best interest of the U.S. economy. I would rather stick to old-fashioned math.

Douglas M. McGraime,
Combe
White Plains, NY

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4000. Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

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SELLING OUR SECURITY: THE EROSION OF AMERICA'S ASSETS

By Martin and Susan J. Tolchin
Alfred A. Knopf • 427pp • \$25

AMERICA'S DANGEROUS LIAISONS

No one in the White House seems willing to admit saying "there is no difference between computer chips and potato chips." Yet the remark is frequently ascribed to unnamed aides to President Bush or to members of his Cabinet. Ross Perot used it in the Oct. 11 Presidential debate. The quote also appears in *Selling Our Security: The Erosion of America's Assets*.

Whether anyone in authority actually said it is almost beside the point: The alleged remark perfectly sums up the Reagan and Bush Administrations' aversion to industrial-policy planning. In their thinking, sales of computer chips and potato chips both contribute to the gross domestic product, and government shouldn't try to discourage one and encourage the other. The market, the theory holds, allocates resources and investments far better than Washington could.

Selling Our Security, by Martin and Susan J. Tolchin, details why this philosophy is simplistic and even dangerous. Using dozens of examples, the Tolchins outline a pattern of neglect they say has hurt the U.S. economy and undermined national security. Making computer chips, they note, entails technological spin-offs and cross-fertilization throughout the electronics industry that can never be matched by producing an equivalent amount of potato chips. Across a wide range of high-tech goods vital to national economic and military security—including flat-panel displays, robotics, and superconductors—U.S. companies are at risk of being hollowed out while high-skilled jobs are lost.

"The failure of American firms has been blamed on the shortsightedness of American management," the Tolchins note, "but there has been complicity on the part of government officials who are wedded to outmoded and unrealistic laissez-faire ideologies." As they point out, there are signs of hope. For one, the Bush Administration has grudgingly complied with congressional mandates to

compile lists of critical technologies and examine the national security impact of foreign takeovers. A Clinton White House would carry that ball still further.

The Administration's hands-off, free-market approach sounds like Adam Smith talking, and it is. But fans of this approach also find persuasive lessons in contemporary events. The cold war, after all, was fought against a communist system that employed centralized planning to disastrous effect. In the past decade, the term Eurosclerosis was

ers for critical components, and little being done about it. Recently, for example, a Japanese company, Fanuc, tried to buy the Energy Dept.'s sole supplier of machine tools used in the exacting construction of hydrogen-bomb trigger. The potato-thinkers in the White House refused to intercede, although the deal fell apart for other reasons. And it's not just components that are at risk, the Tolchins say. We also stand to lose engineering, design, inventory control, and manufacturing knowhow.

The authors warn of the potential transfer of civilian or dual-use technologies. General Dynamics Corp., for example, agreed to co-develop a new version of the F-16 fighter jet with Mitsubishi Corp., with the blessing of the Reagan White House. And Niko Corp. attempted in 1989 to buy the lithography division of Perkin-Elmer Corp. to secure the next generation of chip-

making technology. In both cases, the Japanese were willing to overpay.

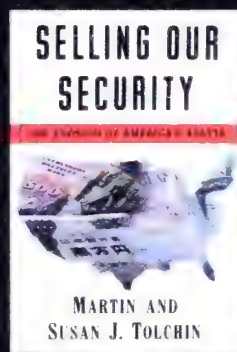
On some points, the Tolchins—Susan's a professor at George Washington University and her husband Martin is a Washington correspondent for *The New York Times*—are off base. They describe former Commerce Secretary Robert Mosbacher as an "eloquent" spokesman for government role in technology. He wasn't. The claim the nation's lead in semiconductors and supercomputers has been "lost." It hasn't—yet.

And readers of the duo's ground-breaking 1988 book, *Buying Into America: How Foreign Money is Changing the Face of Our Nation*, may suffer a bit of déjà vu. Indeed, Susan Tolchin has described the new book as "the national security chapter" left out of the previous effort.

While the book covers some of the same ground as the earlier volume, it is distinguished by up-to-date examples and its emphasis on national security. Taken together, the two paint an alarming picture of a U.S. industrial base hemorrhaging technology so dramatically that entire industries are in danger of going the way of VCRs and color TVs.

The Tolchins' penchant for repetition can get annoying. For example, former CIA Director William Casey appeared in *Buying* three times, warning that foreign investment is a "Trojan horse." He sounds the same alarm twice in *Selling*. But that's quibbling. For those who are

Arms makers in
the U.S. now
rely on foreigners
for critical
components



coined to describe a system so paralyzed by regulation and tax-supported subsidies that almost no jobs were created. And when, in the 1970s, the U.S. government did try its hand at planning—"picking winners and losers," as critics saw it—bureaucrats often proved inept or prone to pork-barrel extravagance. Billions were wasted, for example, on the Synfuels shale-oil project and Tennessee's Clinch River Breeder Reactor.

As foreigners bought up American companies, research, and technology in the late 1980s, almost anyone who suggested that something unseemly was afoot was accused of xenophobia or racism. Anyway, the Japanese seemed perfectly happy to overpay for U.S. real estate, Treasury securities, corporations, technology, and, above all, Washington lobbyists. So where was the harm?

All around us, the Tolchins maintain. First, U.S. weapons makers are increasingly dependent on foreign manufactur-

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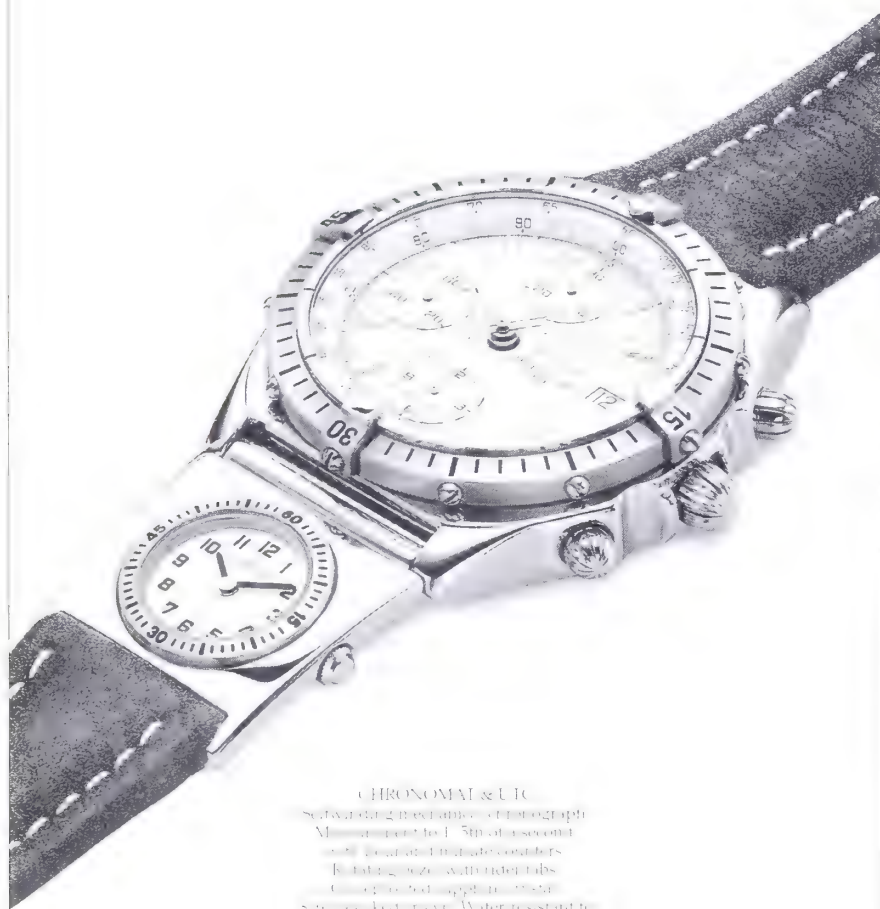




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wondering why they can't find a 100 American-made computer or TV—although whether it even matters—this is the book to read.

BY PAUL MAGNUSSON

Magnusson covers international trade and economic policy in Washington.

BOOK BRIEFS

MOVING MOUNTAINS: LESSONS IN LEADERSHIP AND LOGISTICS FROM THE GULF WAR

By Lieutenant General William G. Pagonis

with Jeffrey L. Cruikshank

HBS Press • 248pp • \$24.95

MANAGEMENT IS HELL

General Gus Pagonis is a war hero with a great story to tell. As head of U.S. logistics in the Gulf War, he managed the movement of hundreds of thousands of troops and the weapons and supplies in one of history's most massive military deployments. He pulled it off without a hitch. In his memoirs, General H. Norman Schwarzkopf depicts Pagonis as a miracle worker.

Unfortunately, Pagonis is no storyteller. "I don't like to write a great deal," he admits in the preface—and one can only conclude that co-author Jeffrey Cruikshank doesn't much like it either. What should have been a gripping tale is one dull, disconnected read.

Pagonis arrived in Saudi Arabia in August, 1990, with a handful of deputies and little else. The first night, he slept by a runway. The next night, he found a sedan to use as an office/bedroom. From there he built a network that handled 550,000 troops, 1.3 billion gallons of fuel, 122 million meals, and 31,800 tons of mail. Not to mention all those tank helicopters, and artillery shells.

Despite the occasional colorful story, *Moving Mountains* is burdened with irrelevant detail and an avalanche of acronyms. "The TAACOM exists as an echelon above corps (EAC) unit, and generally operates to the rear of the conflict," the authors inform us, "with the COSCOM concentrating on forward actions."

The book promises lessons for executives, and there is good raw material here: Pagonis' "3x5 system," which requires that reports be squeezed onto index cards, so only key information gets through. Or his morning "stand-up" meetings, where the absence of chain of command forces short, sweet decision-making. But Pagonis didn't get the help he needed to relate his Army style to business. To see that task accomplished, turn to *The McKinsey Quarterly* management journal, issue 1991, Number 3, for a thoughtful, concise interview with Pagonis.

BY RUSSELL MITCHELL

A BUSINESS ISN'T THE FIRST THING WE EXPECT YOU TO OPEN.

Before you can even think of opening a business or a plant in Alabama, you might have to overcome some misperceptions about the state—images shaped by the media and myths about the South. If that's the case, the first thing we want you to open is your mind.

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Responding to the jokes about Alabama being years behind, Ray

Rosewall

says, "That's

absolutely not the

case. Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds,

"The city is much more of a melting pot of people than I expected."

Concerning the labor force, Ray says,

"They're very hard-working; you just don't find workers in the rest of the country who take so much pride in their accomplishments. As for professionals, we have found many bright engineers from the state's universities."

Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival in Montgomery. "But we saw the best production of Chekhov ever, and made

up our minds to come here at intermission," Tim says. "We felt that working with a theater that draws an audience from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The

Langans, who have a six-year-old son and a 16-year-old daughter, say

that the move from Rhode Island to Alabama has

"Given us our family back...

the family unit is more

together here, and

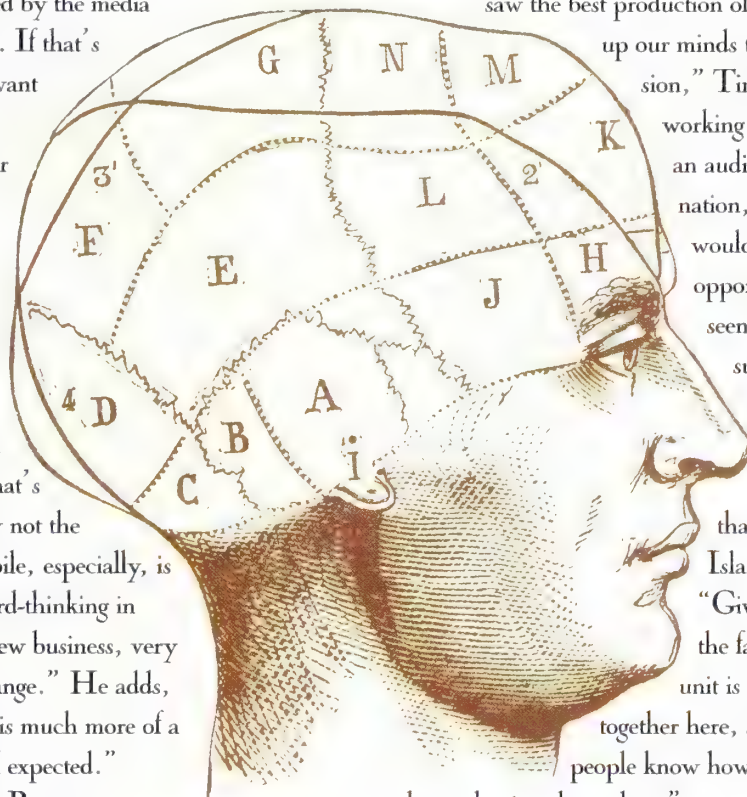
people know how to

relax and enjoy themselves."

When considering a location for a new plant or business, don't close your mind to Alabama. Because a closer look at us could broaden your mind. And your possibilities.

"We expected Shakespeare to be performed with a Southern accent!"

Tim Langan,
Managing Director
The Alabama Shakespeare
Festival, Montgomery



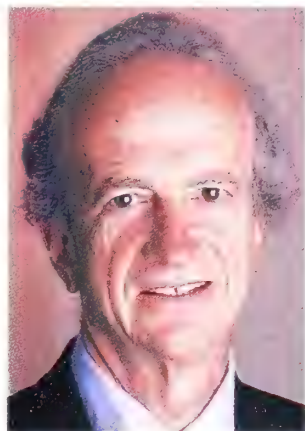
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WHEN THE WAKE-UP CALL IS FROM THE NOBEL COMMITTEE

BY GARY S. BECKER



The Swedish award does not make one an expert on everything, nor is it a license to deliver political homilies. My goal remains to address each new social issue from a uniquely economic perspective

GARY S. BECKER IS PROFESSOR OF ECONOMICS AT THE UNIVERSITY OF CHICAGO AND A FELLOW OF THE HOOVER INSTITUTION

At 5:30 in the morning of Tuesday, Oct. 13, I was awakened from a deep sleep by my wife. "There's a phone call from Sweden," she said. I mumbled that she should let me sleep, but she kept repeating the same phrase. Finally, I got up to take the call that changed my life. The Royal Swedish Academy of Sciences informed me that I had just been awarded the 1992 Nobel prize in economics.

Since then, I have had a constant barrage of congratulatory phone calls, telegrams, and faxes from relatives, friends, would-be friends, and former and present students. Although I'm not a person who easily expresses his feelings, I tried to tell them how overjoyed I was. In interviews with newspapers, magazines, and radio and television programs, I was asked to present my ideas in general terms. Often, the reaction was that they were either obvious or far out.

I have also been asked to comment on all kinds of questions. Suddenly, I am treated as an expert on everything. Although that is a tempting notion, I've tried—not always successfully—to stick to the areas where I have expertise.

I have been annoyed in the past when Nobel laureates in economics have used their honor as a pulpit from which they launched sermons against political candidates they opposed. If economics has any claim to be a science and to belong in the Nobel award structure—and I firmly believe that it does—then this should be an occasion to avoid political propaganda and to convey to the public some flavor of the scientific quality of economics.

CHICAGO LIGHTNING. One of the questions most frequently put to me is whether I was surprised to receive this award. I knew that I was on the list of economists being considered. I also knew that in a poll of many U.S. economists, I had been favored to win for the past few years.

But this year, when the week for the selection rolled around, I didn't think I had the slightest chance. That was because last year the prize was won by a colleague from the University of Chicago, Ronald H. Coase; and the year before that, another Chicagoan, Merton H. Miller, shared the award with two others. Since it seemed inconceivable that the award would go to Chicago three years in a row, I was sleeping soundly when lightning struck.

I am constantly asked what we are going to do with the prize money—\$1.2 million before Uncle Sam takes his very large bite. The answer to that is a simple lesson in economics. Wants always expand to take advantage of new opportunities, which explains why con-

sumers in rich countries feel no more satiated than do those in poor countries. My wife and I won't have the slightest difficulty spending the prize money. We have already been inundated by suggestions from a host of stock brokers, car salesmen, and others who are quite happy to help us resolve any uncertainty we may have.

I won the award for applying economic analysis to social problems, especially race and gender discrimination, investments in education and other human capital, crime and punishment, and the formation, structure, and dissolution of families. Everyone recognizes that most people respond to costs and benefits in deciding how much to buy of simple goods such as fruit, clothing, or a car. I claim that this common-sense idea applies to all human decisions.

CRIME AND MARRIAGE. Yet, some of the implications are fiercely resisted. For example, the view implies that criminals also respond to incentives, so crime increases when potential miscreants believe they won't be punished much for robbery and other crimes. This is more than a law-and-order message, for the analysis also implies that crime increases when legal jobs are hard to get, perhaps because of extensive unemployment or because teenagers leave school with few skills.

According to my approach, people marry when they expect to get more pleasure from marriage than by remaining single and continuing to search for a better mate. The number of children a couple has depends on the costs and benefits of child rearing. Therefore, couples tend to have fewer children when the wife works and has a better-paying job, when subsidies from the government through child allowances and tax deductions for dependents are smaller, when the cost of educating and training children rises, and so forth.

By the same token, couples divorce when they no longer believe they are better off by staying married. In particular, divorce rates grow when women's earnings are higher compared with those of men; the gain to such women of remaining married is thus diminished. And the no-fault divorce laws that have become so common tend to worsen the plight of divorced women with children.

What I have tried to do in these columns during the past 6½ years is to apply the same kind of analysis to policy and social issues that are of general interest. I hope that my Nobel prize doesn't delude me into thinking I have all the answers, and I hope that my columns can continue to analyze the many social issues where the economic way of looking at life has something valuable to say.

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BY GENE KORETZ

THE JOB MARKET COULD BE WORSE THAN UNCLE SAM SAYS

Have employment trends this year been even weaker than the monthly payroll job numbers indicate? The question is important for a variety of reasons. If the modest job gains reported earlier this year never took place, for example, the current malaise expressed in consumer sentiment surveys would be more understandable. Moreover, the payroll numbers undergo annual benchmark revisions, and such revisions affect final estimates of income and out-



put. Thus, they have the potential of altering the official measure of the length and severity of the recession.

That's exactly what happened earlier this year, when the 1991 job count was revised based on comprehensive employment data for March, 1991. This benchmark revision lowered the national payroll-employment level by some 650,000 jobs. And that had the effect of converting a modest rise in gross domestic product in the third quarter of 1990 into a decline, and of deepening the drop registered in the first quarter of 1991. In short, it changed what appeared to be a very short, mild recession into a more serious contraction.

According to economist Mark Zandi of Regional Financial Associates, it could well happen again. Zandi points out that in constructing the monthly payroll-employment estimates from its nationwide sampling of 350,000 companies, the Bureau of Labor Statistics adjusts the count to correct for underlying trends it feels are not picked up by the survey. At the same time, each state BLS office

makes similar adjustments for factors it feels are relevant to its own count. Because the state and national adjustments are different, the national count and the sum of all the state tallies often diverge, and this year the deviation has been especially large (chart).

Since January, notes Zandi, payroll jobs as measured by the state tallies have been falling steadily, while the national estimate has only recently turned down. "Between March and July," he says, "the states' job count fell by 377,000, while the national estimate shows an increase of 400,000—a disparity of 777,000 jobs in just four months."

Zandi doubts benchmark revisions next year will confirm the job growth portrayed by the national count. Record business failures, slowing new-business formation, and sagging consumer confidence, he says, suggest that the weaker state tallies are on target. And if that's the case, he adds, next summer's revisions in GDP could well turn the economy's reported 1.5% gain in the second quarter of this year into a 1% decline.

WHY THE TAXMAN WANTS YOU TO REFINANCE YOUR HOME

Some observers think the recent surge in mortgage refinancing inspired by falling interest rates could presage a significant pickup in consumer spending. But recent surveys indicate that well over 40% of homeowners refinancing 30-year mortgages are opting for 15-year loans. And that, observes economist David Resler of Nomura Securities International Inc., cuts sharply into their income available for discretionary spending.

Take the case of someone five years into a 30-year, \$100,000 mortgage at 9.5%. Resler calculates that refinancing the unpaid balance with a 15-year mortgage at 7.5% would raise such a homeowner's monthly payment by about \$51. But because less of the payment goes to interest, he or she owes more income tax. And at a 28% marginal tax rate, the homeowner's net after-tax payment actually rises by more than \$100.

The real beneficiary, says Resler, may be the tax collector. At current interest and marginal tax rates, he estimates that each dollar of debt shortening reduces the present value of the government's subsidy to home buyers by about \$7,000 for each \$100,000 borrowed. And based on estimated refinancings done this year, that adds up to about \$13 billion worth of extra taxes (in 1992 dollars) to be collected over the next 30

years. "In this light," says Resler, "debt refinancing is nothing if not patriotic, allowing homeowners to voluntarily increase their tax payments."

ARTHUR LAFFER, GURU OF REAGANOMICS, IS VOTING FOR CLINTON

In Washington mythology, it was his sketch of a diagram on a restaurant napkin that inspired the tax-cut philosophy underlying Reaganomics. Now, the current issue of *The New Republic*, Arthur B. Laffer, creator of the famous "Laffer curve," has announced that he is voting for Bill Clinton.

Is this philosophical apostasy? Not at all, says Laffer. Rather, he blames the 1990 tax hike for the current recession and Bush for acceding to it and breaking a personal promise not to countenance any reversal of Reaganomics.

As for Clinton, Laffer finds his record in Arkansas "above average," and he likes his criticism of Bush on the tax hike and his fond words about growth. Most of all, Laffer notes that if Clinton "strays too far from the straight and narrow" (which presumably means reverting to tax-and-spend policies), the resulting economic dislocations would guarantee the election of "a great Republican Presidency in 1996."

DO IVY-COVERED HALLS HOLD LESS ALLURE FOR THE YOUNG?

Although college-enrollment rates for recent high school graduates have been rising, college attainment levels among young workers appear to have leveled off. An analysis of Census Bureau statistics in the *Numbers News* shows that from 1940 to 1971, the share of Americans aged 25 to 29 who had completed four or more years of college nearly tripled from 6% to 17%, and it peaked at 24% in 1977. But since then the share has fallen slightly and generally moved sideways.

One reason may be that many young people leave college early—either because of costs, learning problems, or more limited goals than earning a four-year degree. Increased immigration of less educated young adults may also be a factor. Whatever the reason, however, the educational-attainment level of the total adult population will continue to rise for many years to come as older, less educated groups die off and are replaced by their better-schooled offspring.

THE HUM OF FACTORIES GROWS FAINTER ALL THE TIME

Manufacturing is flat on its back—again. For the third time in three years, factory output is falling. In 1990, the reason was the recession. In 1991, it was the aborted recovery. In 1992, relentless stagnation here at home has crippled production, and weakness abroad has kicked away the crutch: exports. The factory sector has grown increasingly dependent on export growth to carry it through tough times. Without strong foreign demand, the U.S. economy's drop in 1990 would have been much steeper. Now, however, exports have slowed sharply—especially shipments to Europe (see chart). So, as factories lose that cushion, the entire economy is feeling the difference.

Because of export declines in July and August, a big widening of the trade deficit subtracted a bundle from third-quarter growth in real gross domestic product. A worsening trade gap helps to explain why the economy felt so lousy last quarter, despite a decent gain in consumer spending. It appears that growth in real GDP last quarter was hard-pressed to match even the

second quarter's feeble gain of 1.5%. Trouble is, the problems in manufacturing suggest that fourth-quarter growth could be just as frail. Weak demand caused inventories to pile up last quarter, especially at factories. Excessive stock levels, a trickle of new orders, and a shrinking order backlog imply further cutbacks in manufacturing output and employment. And no one seems able to help. Detroit has slashed its plans for fourth-quarter output amid slumping car sales. The recovery in homebuilding is pale by past standards. Consumers, who let their spending run ahead of their income last quarter, may be tapped out as they head into the holiday buying season. And defense cutbacks continue to exert a powerful downdraft. Add in the bad news on exports, and factories are clearly in trouble.

SHOPPERS MAY STAY HOME THIS QUARTER Manufacturing's woes are evident in the latest data. Industrial production at the nation's factories, utilities, and mines slipped 0.2% in September, but the weakness was worse than that. A weather-related surge in utility output propped up the numbers. Manufacturing output nonetheless fell 0.4%, the third drop in the past four months. Factory production now is no higher than it was in April.

In fact, output remains 1.6% below where it was when the recession began in 1990.

As a result of production cuts, utilization rates are also slipping. Operating rates for all industry dropped to 78.4%, from 78.7% in August, and capacity use among manufacturers fell to 77.7% in September, from 78%. Factories will have to cut back their operations even more until customers emerge to buy their products. For now, however, there is no flicker of light at the end of their recession tunnel.

Take domestic demand. Consumer spending increased handily in the third quarter, but the advance was not matched by a pickup in jobs or income. Real outlays appear to have risen more than 3%, but real aftertax income did not grow at all. As a result, the buying pace in the fourth quarter may well be much lower. That was the pattern consumers followed in 1992's first half, when they couldn't shop fast enough in the first quarter and then stayed at home in the second.

AUTO SALES STILL ARE STALLED

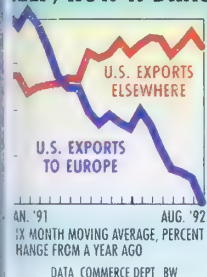
Housing, at least, was looking somewhat better at the end of the third quarter than it did at the beginning. Housing starts edged up 1.2% in September, to an annual rate of 1.26 million (chart). And the Commerce Dept. revised the August gain to 12.6%, better than the already strong 10.4% increase previously reported.

Starts grew at a 20.8% annual rate in the third quarter, partially reversing their stumble in the second. That bounce—helped by the lowest mortgage rates in 20 years, plus rebuilding after Hurricane Andrew—should help demand for home-related products and construction supplies this quarter.

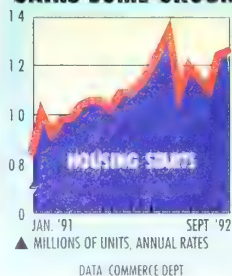
That's good news for the producers of those goods, because they muddled through a dismal third quarter. Output of consumer durables, including appliances, carpeting, and furniture, was basically unchanged last quarter. And the production of construction supplies rose at an annual rate of only 1.7% in the third period.

But other signs aren't nearly as bright. Fading domestic demand was evident in lagging auto and truck production, which was expected to give the third-quarter economy a healthy boost. Instead, output for the quarter fell at a 17.5% clip. And fourth-quarter car demand got off to a

EUROPE: ONCE A HELP, NOW A DRAG

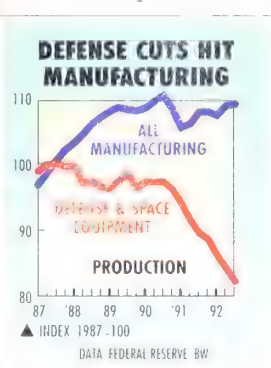


HOMEBUILDING GAINS SOME GROUND



Business Outlook

shaky start. Sales of new U.S.-made cars slipped to a dismal 5.8 million annual rate in early October, down from a 6.3 million pace for all of September.



In addition, the defense industry continues to gasp for air. No single factory sector has taken as big a hit as suppliers to the military. Defense output has been unraveling for two years. As total factory production has flattened out, the defense industry has lost 16.5% of its output since 1990 (chart).

Defense contractors have accounted for some two-thirds of

the factory jobs lost in the last two years, and they have seen their backlog of unfilled orders shrink by 12.4% over the past year. With each Presidential candidate vowing to cut the Pentagon's budget further, the outlook is for even more declines and the continued dismantling of the defense industry in coming years.

THE GLOBAL SLOWDOWN HITS HOME

At least one source of demand—exports—is likely to be in a better position to help the factory sector next year. The recent problem with exports is caused by the global slowdown rather than uncompetitive pricing. That's why the trade outlook depends less on recent swings in the dollar and more on economic recoveries around the globe, probably later on next year.

In August, the merchandise trade deficit widened to a surprising \$9 billion—the biggest gap in nearly two years. Exports dropped by 6.1%, to \$35.5 billion. That was the second consecutive loss in foreign shipments.

Imports fell by a smaller 1.3% in August, as declines in foodstuffs, petroleum, and consumer goods offset gains of capital goods and cars. In particular, capital goods have increased for three consecutive months, accounting for 39%

of the increase in imports since May (page 26). Imports are likely to grow even more when the U.S. recovery takes a firmer hold.

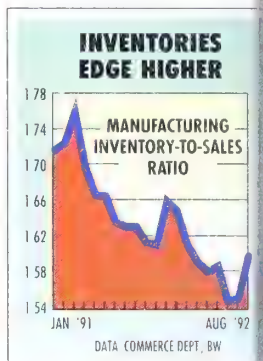
American exporters, meanwhile, are hoping for signs of recovery in major U.S. trading partners, especially Europe. That remains the prime export market, but shipments across the Atlantic have been declining in 1992.

Growth abroad should strengthen next year. Japan's recent package of fiscal stimulus will lift that economy. In Europe, some countries have already cut interest rates in response to their floundering economies, and rate cuts elsewhere—even in Germany—seem inevitable.

A rebound in exports in 1993, though, will not come soon enough to reverse the recent backup of inventories. Manufacturers who boosted output in the second quarter in anticipation of a consumer-led rebound are now caught with too many goods in their warehouses.

Total business inventories rose for the third straight month in August, up 0.3%. Factory stock levels were up by a larger 0.5%, even though shipments fell 2.4%. As a result, the ratio of factory inventories to sales jumped to almost 1.6 in August, from a record low less than 1.55 in June (chart). The increasingly rapid response of factories to inventory changes suggests further output cuts this quarter.

Stronger consumer spending—which might get some help from recent gains in homebuilding—could short-circuit this latest manufacturing recession before it has a chance to drag down the entire economy. But if shoppers are still in the stores in the fourth quarter, they will have seen faster job and income growth. Only then will manufacturers be able to pick themselves up, dust themselves off, and start moving forward again.



THE WEEK AHEAD

GROSS DOMESTIC PRODUCT

Tuesday, Oct. 27, 8:30 a.m.

The economy likely grew at an annual rate of 1.6% in the third quarter, little changed from the 1.5% yearly pace in the second period, say economists polled by MMS International, a unit of McGraw-Hill Inc. Increased consumer spending and a faster pace of inventory growth were likely offset by a worsening in the foreign trade position and a drop in business investment in new structures.

EMPLOYMENT COSTS

Tuesday, Oct. 27, 8:30 a.m.

Compensation costs probably rose by 0.8% in the third quarter, the same small advance as in the second quarter.

Wage growth has slowed in the past two years, but benefits—especially medical insurance—are still rising rapidly.

CONSUMER CONFIDENCE

Tuesday, Oct. 27, 10 a.m.

The Conference Board's index of consumer confidence in October probably was little changed from its downbeat reading of 56.4 in September.

DURABLE GOODS ORDERS

Wednesday, Oct. 28, 8:30 a.m.

New orders for durable goods likely rose by just 0.5% in September, say the MMS economists. Orders had declined 0.1% in August. The small September gain suggests that unfilled orders fell for the 13th month in a row.

PERSONAL INCOME

Wednesday, Oct. 28, 10 a.m.

The MMS consensus expects that personal income rose by 0.4% in September after dropping 0.5% in August. A bounce-back in rental income after Hurricane Andrew will account for most of the swing. Consumer spending, which fell by 0.1% in August, likely increased by 0.4% last month. That's suggested by the modest gain in retail sales.

SINGLE-FAMILY HOME SALES

Friday, Oct. 30, 10 a.m.

New homes likely sold at an annual rate of 588,000 in September, up from 570,000 in August. The summer drop in mortgage rates is finally boosting the data.

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GUESS WHO ISN'T BUYING AMERICAN

FOR MANY U.S. COMPANIES, IMPORTED GOODS ARE CHEAPER AND BETTER-MADE

By now, the "Buy American" message has been drummed into the nation's consumers. Remember Monsanto Chemical Co.'s January offer to employees? The company said it would give \$1,000 to workers who bought cars assembled in the U.S., Canada, or Mexico. Just this month, the mayor of Flint, Mich., said he would bar foreign-made cars from parking in the city hall garage.

Just the same, the Commerce Dept. reported on Oct. 15 that the U.S. merchandise trade deficit widened from \$7.3 billion in July to \$9 billion in August—the worst gap in nearly two years. Here's the surprise: On the import side, the culprit isn't necessarily consumers picking up German coffee makers or made-in-Taiwan tennis rackets. These days, American business increasingly is behind the widening trade gap.

LONG LIST. The numbers tell the story. While nonauto imports of consumer goods fell by 2.2% in August, imports of capital goods rose for the third consecutive month, gaining 1.5%, Commerce says. And in the second quarter, the most recent period tallied, business imports totaled \$242.6 billion, a 38% increase, says DRI/McGraw-Hill. That jump was nearly twice the growth rate of auto and other consumer goods imports (charts).

The companies behind these numbers are legion. Black & Decker Corp., for instance, has

fought hard to win back a market that U.S. companies had largely lost to Asian competitors. Yet when the toolmaker had to buy four \$100,000 computer-controlled lathes this year, it bought them in Japan. Now the company is mulling whether to buy new gear-cutting machines from a supplier in Rochester, N.Y., or one in Germany.

Or consider Hughes Aircraft Co., a mainstay of the U.S. defense industry. Hughes, a General Motors Corp. unit, recently won a \$31 million contract to supply sonar systems for U.S. Navy helicopters. A key part of the system will

be imported from France: Thomson already makes the mechanism for the British navy. Boeing Co., too, is relying more on foreign parts. While they accounted for less than 4% of its 747 jet, Boeing will import about 20% of the airframe for its new 777.

The rise in imports could hardly come at a worse time for America's manufacturing economy, struggling to escape recession's grip (page 23). Indeed, DRI/McGraw-Hill reckons imports may have cut 1% off America's gross domestic product this year.

There may yet be one positive long-

Port of Oakland: The widening trade gap bedevils a recuperating economy



sting residue from the trend. Robert Wrence, professor of international economics at Harvard University, says that capital-goods imports may be a sign of a cyclical recovery. "We like to see foreigners for our problems, but it may be a signal that U.S. companies are investing more," he says. "It's inevitable that as the economy recovers the trade deficit will rise."

OPTIONS. What's behind Corporate America's offshore spending spree? Some executives say it's a matter of quality. In 1989, when Ortho Biotech, a subsidiary of Johnson & Johnson, wanted to outfit a new plant in Puerto Rico, it went to Finland for a water-purification system. The biotech company says it could have purchased the equipment in the U.S. but says the Finnish system is better. "We try to buy American," says President Dennis N. Longstreet. "We buy outside the country really because the quality is clearly superior." Other companies say they don't have the luxury of choice: that goods they need simply aren't made domestically anymore. Black & Decker, for instance, says that's the case with the lathes it rented and points out that 70% of the equipment it buys is made in the U.S.

And Silicon Valley's computer executives long have complained that they can't get U.S.-made liquid-crystal displays for their portable computers—although their offshore buying is what shut the domestic business down in the first place. One result of this vicious cycle: Sales of LCDs to U.S. companies this year are expected to jump 95%, to \$222 million, from \$114 million in 1990. The computer makers may gain a second chance: On Oct. 21, Motorola Inc. said it has formed a joint venture with In Focus Systems Inc., a tiny U.S. screenmaker, to produce screens in America.

But many U.S. companies go shopping overseas simply to cut costs. When Arco Chemical Co. went looking for the 40-foot-in-diameter steel containers it needed for a new \$500 million production plant near Houston, it rejected costlier U.S.-made products in favor of those made in Japan by Sumitomo Heavy Industries Ltd. "We'll bid competitively anywhere to get this equipment," says Donald P. Mykytiuk, Arco's director of project management.

Besides, picking up an import here and there can make exporting a whole lot easier. Hughes, which allied with Germany's Siemens Plessey Systems

and Norway's NFT to win a \$452 million radar contract from the U.S. Army this year, is maintaining the alliance in hopes of winning surface-to-air missile contracts in both partners' countries.

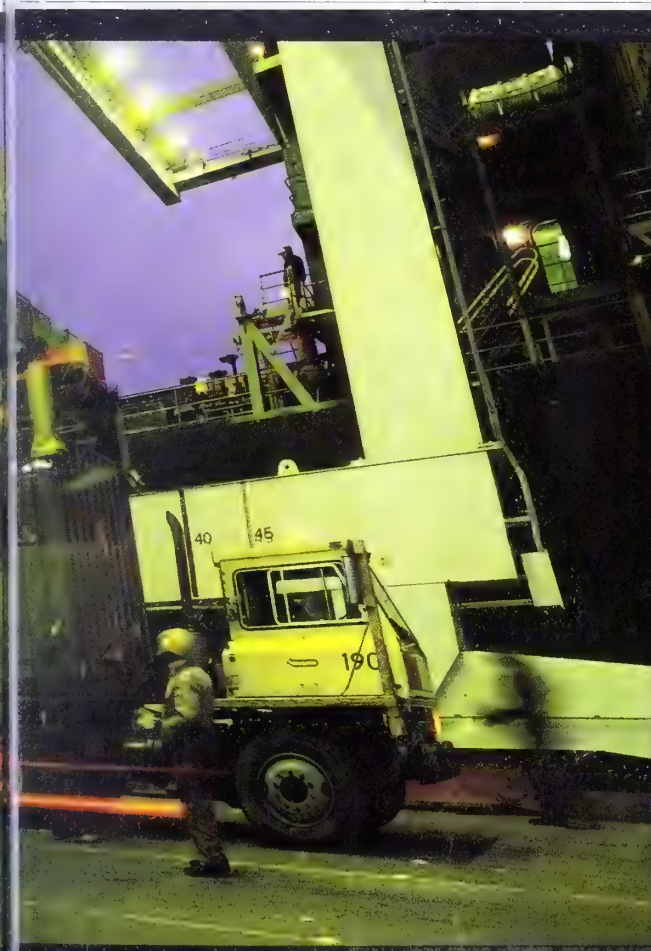
Like other ill winds, this one does blow some good. This year, despite a weak market for autos, imports of car parts from Japan, Mexico, and Canada remained at a high \$10.5 billion, according to the University of Michigan. But the rise in auto-parts imports means an uptick in U.S. production of vehicles that might have been made overseas.

PICKUP PICKUP. Something, in other words, beats nothing. Take the New United Motor Manufacturing Inc. (NUMMI) plant in Fremont, Calif., the GM-Toyota joint venture. Last year, NUMMI began assembling Toyota-branded pickup trucks. In the second half of this year, production will total 45,000 trucks, up from only 3,000 in 1991, according to *Ward's Automotive Reports*. For each of the trucks built there, NUMMI will import an engine, transmission, and other parts from Japan. On the other hand, NUMMI invested about \$350 million in the U.S. plant and hired about 850 workers.

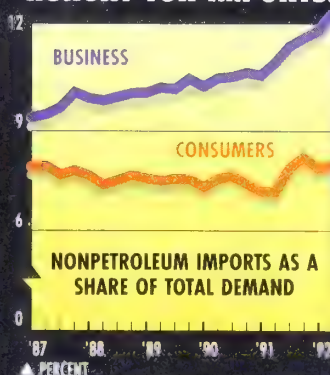
To some U.S. companies, that's not much of a silver lining. Universal Instruments Corp., a Binghamton (N.Y.) maker of equipment for attaching electronic components to circuit boards, says it can barely compete with its offshore rivals. Universal's president, Gerhard D. Meese, says his company is fighting as many as 50 foreign rivals.

To stay competitive, Meese has made three trips to Japan in search of ways to improve his product. A new machine, he says, has kept most customers and has prevented rivals from eating into his \$230 million in annual sales. "But if you look at our market share," he says, "there has definitely been some erosion." If it continues, Meese's U.S. customers may one day complain that they don't have the option of buying at home.

By Ronald Grover and Amy Barrett in Los Angeles, with Joseph Weber in Philadelphia and bureau reports



BUSINESS IS STILL HUNGRY FOR IMPORTS...



...AND THAT'S NOT HELPING THE TRADE GAP



A THIRD-QUARTER PROFIT PREVIEW: NOT HALF BAD

Chrysler and brokers hit it big—but AMR was a nasty surprise

What do you call a quarter in which a Detroit auto maker actually posts a profit? Not bad. Chrysler Corp. wasn't the only company in BUSINESS WEEK's flash report on third-quarter profits to post an upside surprise. Wall Street had a neat three months, with both Merrill Lynch & Co. and PaineWebber Group Inc. beating forecasts. Yet the downside proved dramatic. AMR Corp., American Airlines' parent, took some bad blows, thanks to the summer's fare war. And IBM, of course, posted bad results. But take IBM out of the mix, and Wall Street analysts did a pretty good job of gauging the quarter's performance for the remaining 81 companies on our list. Consensus earnings estimates as of last Aug. 13—about midquarter—missed the mark by just a penny.



CONTINENTAL DRIFT AT IBM

Its earnings engine is sputtering as Europe's growth slows

For IBM, it was the quarter from hell. First, cut-rate personal computer clones trounced Big Blue's own uncompetitive line of PCs, which in October were replaced with new models (page 152). Then, sales of high-profit mainframes faltered—less than a year after new models had their debut. But the zinger came from Europe and the wild gyrations its currency markets suffered in September. Amid the turmoil,

IBM said, buyers froze computer orders. Profits plunged 51%, to \$86 million—before a \$4.4 billion special charge.

Now for the really bad news. Europe's currency crisis was in fact only an acute symptom of a chronic malaise: The Continent's economies are stagnating or contracting—and political turmoil over economic union has shaken business confidence. The upshot? Europe, once IBM's earnings engine, may sap profits throughout 1993. "The banker IBM always counted on isn't there anymore," says Derek Lewis, managing director of British computer dealer Technology PLC.

IN SAD COMPANY. IBM isn't the only American company laying the blame for a lousy third quarter on Europe's shores. Ford Motor Co. has already warned that its results will be hurt by flat sales on the Continent. But technology companies, which have seen much of their sales and profit growth shift to

	Current qtr. sales
INDUSTRIALS	100,680.7
ALCOA	2,381.7
AMERICAN CYANAMID	1,198.0
AMOCO	7,261.0
AVON	938.8
BLACK & DECKER	1,185.7
BOISE CASCADE	934.5
BRISTOL-MYERS SQUIBB	3,102.6
CHAMPION INTERNATIONAL	1,259.2
CHRYSLER	9,216.0
COCA-COLA	3,507.5
CORNING	1,162.0
CPC INTERNATIONAL	1,601.5
CUMMINS ENGINE	903.6
GENERAL DYNAMICS	1,661.0
GENERAL ELECTRIC	15,137.0
GEORGIA-PACIFIC	3,061.0
GILLETTE	1,249.2
GREAT LAKES CHEMICAL	374.9
JOHNSON & JOHNSON	3,480.0
KELLOGG	1,670.7
LOCKHEED	2,474.0
MAYTAG	735.5
MERCK	2,464.3
OWENS-CORNING	786.0
PEPSICO	5,640.0
PFIZER	1,827.6
PHILIP MORRIS	15,005.0
RUBBERMAID	473.5
TEXACO	10,005.0
SERVICES	30,254.5
AMR	3,725.0
BLOCKBUSTER ENT.	283.8
CAPITAL CITIES/ABC	1,215.3
CHEMICAL BANKING	NA
CHEMICAL WASTE MGMT.	394.0
CITICORP	NA
CONSOLIDATED	
FREIGHTWAYS	1,037.8
DUN & BRADSTREET	1,190.4
KROGER	6,333.1
LIZ CLAIBORNE	618.3
MARRIOTT	1,948.0
McGRAW-HILL	532.7

Europe during the past decade, are especially hard by the region's weak Digital Equipment, Computervision, Stratus Computer, and Lotus Development all have complained of weak European sales in the latest quarter.

There is plenty to complain about. IBM Europe Chairman Renato Rivero says the \$124 billion European technology market may not grow at all in 1993 compared with average annual growth of 8% during the past three years. As he adds, "we have no reason for optimism that 1993 will be any better."

Not without some help from heaven, anyway. In Britain, for instance, dealers say widespread layoffs at companies such as British Aerospace PLC and Royal Royce PLC have been accompanied by massive cuts in data-processing budgets. Even companies based in France, where the economy is relatively buoyant, are cutting back. Take Peugeot. Last Ap-

% chg.	Est. EPS (8/13)	Reported EPS	Diff.
+20	0.75	0.77	+0.02
-18	0.78	0.72	-0.06
+8	0.75	0.68	-0.07
+61	0.66	0.94	+0.28
+13	0.76	0.75	-0.01
+23	0.26	0.11	-0.15
NM	-1.15	-1.11	+0.04
+5	1.21	1.14	-0.07
+380	-0.13	0.47	+0.60
NM	0.20	0.62	+0.42
+18	0.42	0.41	-0.01
+2	0.60	0.56	-0.04
+10	0.77	0.76	-0.01
NM	0.83	0.69	-0.14
+55	1.99	1.95	-0.04
+7	1.31	1.30	-0.01
NM	0.07	-0.43	-0.50
+23	0.56	0.58	+0.02
+53	0.85	0.84	-0.01
+17	0.64	0.65	+0.01
+18	0.84	0.86	+0.02
+6	1.42	1.40	-0.02
NM	0.26	-0.47	-0.73
+17	0.56	0.55	-0.01
+23	0.90	0.75	-0.15
+49	0.51	0.53	+0.02
+8	0.95	0.88	-0.07
+16	1.46	1.44	-0.02
+14	0.32	0.33	+0.01
-6	0.99	0.94	-0.05
NM	0.37	0.52	+0.15
NM	0.15	-1.13	-1.28
+51	0.21	0.22	+0.01
+15	3.89	3.74	-0.15
+35	0.86	0.98	+0.12
+17	0.21	0.19	-0.02
NM	0.28	0.17	-0.11
NM	0.19	-0.05	-0.24
+11	0.86	0.84	-0.02
-59	0.21	0.08	-0.13
-2	0.78	0.77	-0.01
+44	0.19	0.21	+0.02
+11	1.26	1.25	-0.01

	Current qtr. sales	% chg.	Current qtr. profits	chg	Est. EPS (8/13)	Reported EPS	Diff.
MERRILL LYNCH	3,390.2	+12	230.1	+44	1.60	2.05	+0.45
NATIONSBANK	NA	NA	350.0	+332	1.10	1.40	+0.30
PAINWEBBER	836.5	+3	51.7	+35	0.66	1.06	+0.40
SAFeway	3,455.5	-2	20.0	-62	0.30	0.17	-0.13
Schwab (Charles)	196.8	-3	7.8	-41	0.43	0.20	-0.23
TIME WARNER	3,246.0	+10	6.0	NM	-1.42	-0.41	+1.01
UNION PACIFIC	1,851.0	+6	185.0	NM	0.93	0.91	-0.02
WELLS FARGO	NA	NA	24.0	-72	1.42	0.21	-1.21
TECHNOLOGY	42,274.1	+6	-1,613.7	NM	0.67	-0.55	-1.22
ADVANCED MICRO DEVICES	356.7	+23	49.1	+188	0.30	0.51	+0.21
APPLE COMPUTER††	1,767.7	+17	97.6	+20	0.90	0.81	-0.09
COMPAQ COMPUTER	1,067.1	+50	49.4	NM	0.46	0.61	+0.15
CONNER PERIPHERALS	625.5	+58	41.9	+141	0.61	0.79	+0.18
DIGITAL EQUIPMENT†	3,314.3	+1	-260.5	NM	-1.28	-2.04	-0.76
GENENTECH	137.3	+2	7.7	-43	0.03	0.07	+0.04
HONEYWELL	1,550.0	+4	176.0	+123	1.24	2.54	+1.30
IBM	14,702.0	+2	-2,778.0	NM	1.07	-4.87	-5.94
INTEL	1,426.2	+20	240.8	+19	1.04	1.12	+0.08
LOTUS DEVELOPMENT	206.7	-6	30.1	+40	0.32	0.72	+0.40
MICROSOFT†	818.0	+41	209.0	+45	0.68	0.70	+0.02
MOTOROLA	3,396.0	+24	129.0	+39	0.96	0.97	+0.01
POLAROID	514.1	+8	27.7	-95	0.48	0.59	+0.11
RAYTHEON	2,214.0	-1	156.1	+5	1.24	1.16	-0.08
TANDY†	1,160.1	+10	32.1	-23	0.30	0.40	+0.10
TEXAS INSTRUMENTS	1,892.0	+11	57.0	NM	0.59	0.58	-0.01
TRW	2,020.0	+7	49.0	+53	0.77	0.77	—
UNISYS	2,067.5	+5	58.3	NM	0.13	0.17	+0.04
WESTINGHOUSE ELECTRIC	3,039.0	-11	14.0	NM	0.41	0.00	-0.41
UTILITIES & TELECOM.	35,181.9	+2	3,539.4	0	0.82	0.78	-0.04
AMERICAN ELECTRIC POWER	1,282.0	-1	123.3	-17	0.79	0.58	-0.21
AMERITECH	2,813.2	+4	330.5	-13	1.21	1.23	+0.02
BELL ATLANTIC	3,167.0	0	392.9	+19	0.81	0.91	+0.10
BELLSOUTH	3,736.0	+3	385.6	+9	0.81	0.78	-0.03
CENTEL	299.8	+2	11.5	-60	0.16	0.13	-0.03
COMMONWEALTH EDISON	1,708.9	-12	235.9	-35	1.54	1.02	-0.52
GTE	4,965.0	+2	500.0	+9	0.54	0.55	+0.01
MCI COMMUNICATIONS	2,682.0	+11	154.0	+16	0.56	0.58	+0.02
NYNEX	3,324.7	+2	319.7	+10	1.59	1.55	-0.04
PACIFIC TELESIS	2,512.0	+1	277.0	+1	0.74	0.70	-0.04
PUBLIC SERVICE ENT. GROUP	1,249.3	-1	138.1	-18	0.79	0.59	-0.20
SCECORP	2,550.0	+13	272.3	+10	1.36	1.22	-0.14
SPRINT	2,330.4	+5	115.2	+19	0.47	0.52	+0.05
US WEST	2,561.7	-2	283.4	+5	0.72	0.69	-0.03

NA: not available NM: not meaningful † First-quarter results †† Fourth-quarter results
DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC., INSTITUTIONAL BROKERS ESTIMATE SYSTEM, BW

auto maker went on an austerity drive, pushing back 10% of all scheduled investment. Because of the September devaluation of currencies in Italy, Britain and Spain—three big export markets for Peugeot—the auto maker's profits will weaken, causing further tightening of capital spending.

FINANCIAL CONTROL. That's rotten news for IBM, since Peugeot will cut 75% of its planned fourth-quarter buying of PCs until next year, including \$3 million in IBM business, says Jean-Serge Berton, Peugeot's chief technical officer. Only projects critical to saving costs are moving ahead, such as an \$8.4 million upgrade of Peugeot's mainframes. Says Berton: "We're postponing everything we can."

Most worrisome is the technology market in Germany, Europe's

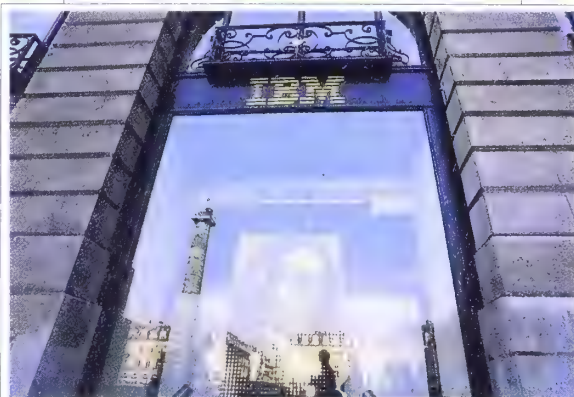
economic engine. Computer sales to emerging east German businesses peaked early this year. Now, major computer customers such as chemical makers BASF, Hoechst, and Bayer are cutting costs as exports are slammed by the strong German mark. Auto makers are starting to cut back, too. "If Germa-

ny goes down," worries IBM's Rivero, "it will pull all of Europe with it."

Like many U.S. companies with sagging European sales, IBM has been trying to boost profits by reorganizing abroad. To cut overhead and speed decision-making, Rivero last year began shifting responsibility for product-line management and marketing from IBM's Paris headquarters to regional managers. By year's end, IBM's European staff will shrink 17%, to 90,000 workers.

Still, such moves only go so far. "We're running very fast to get more competitive," Rivero says. "But I can't say everything we save is going to the bottom line." Translation: IBM Europe isn't planning to send its parent quarters from heaven any time soon.

By Jonathan B. Levine in Paris, with bureau reports



PARIS HEADQUARTERS: NEXT YEAR LOOKS NO BETTER

Commentary/by Howard Gleckman

DEAR BILL: STEER CLEAR OF THE SHORT-TERM FIX

Ahead in the polls by 15-plus points and impervious to Republican character assaults, Bill Clinton appears headed for victory on Nov. 3. But even before the votes are cast, the Arkansas governor's advisers are struggling with the central problem that he would face as President: How can he balance the competing imperatives of reducing the budget deficit and getting the economy moving? President Bush's inability to shake the tyranny of the deficit has, in all probability, cost him his job. And Clinton aides know that if they do not do better, the fiscal dragon could slay his Presidency as well.

Clinton has gotten an early whiff of the dangers. When an already shaky bond market realized that—gasp!—a Democrat was about to win, it got a case of the willies. It wasn't all the candidate's doing, but yields on 30-year Treasury bonds surged from 7.50% on Oct. 15 to 7.61% on Oct. 21. Word leaked that Clinton might be considering a new short-term stimulus package on top of the \$80 billion federal spending-cum-investment program he has been promoting. Bond traders went into a funk despite the efforts of Clinton's advisers to calm the market. "It's a hell of a burden to inherit an economy this weak and a deficit this big," says Clinton's economic-issues director, Gene Sperling. "But we will remain firm."

TALL ORDER. The debate among Clinton advisers isn't really about extra spending. It's a disagreement over how quickly Clinton's investment plan should kick in. Some of his gurus, particularly Harvard University Professor Robert B. Reich, want to give the economy a quick jolt by accelerating some public-works spending. Others, including Progressive Policy Institute Vice-President Robert J. Shapiro and Wall Streeters Robert S. Rubin and Roger C. Altman, counsel caution.

Clinton still has an election to worry about, and he won't tackle this touch-

stone issue until after Nov. 3. But he's beginning to recognize his painful choice. He has promised to halve the deficit in four years, boost spending, expand tax incentives, and raise taxes only on the rich and on foreign corporations. That's a tall order, and Bush has repeatedly charged that Clinton will resort to raising taxes on the middle class. In the Oct. 19 debate in East Lansing, Mich., Clinton established his priorities: "If the money does

way, why not jump-start the economy by loading as much of the money as possible into early 1993? But the economy may have trouble digesting additional public-works funding. Congress and the Administration have already agreed to spend more than \$25 billion in the coming year on roads, water and sewer projects and on mass transit. Congressional Budget Office Director Robert D. Reischauer doubts whether another huge dollop of cash could be spent efficiently in such a short period of time.

FEW BUYERS. Clinton advisers have kicked around two tax incentives: a temporary investment credit designed to boost capital spending and a credit for wages paid to new hires. A generous but temporary investment tax credit might accelerate equipment purchases in 1993 even if it did little to raise investment in the long run. So, Clinton might be better off with it than with the permanent—and more expensive—write-off that he has been pushing. He might even try a one-year speedup of depreciation, as Bush proposed earlier this year.

But tax incentives may not be enough to encourage business spending, since lower interest rates already have drastically cut the cost of capital. The real problem is that with orders weak, businesses are unwilling to purchase new equipment no matter how cheap the financing.

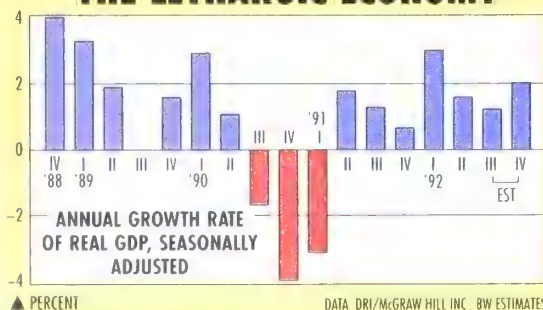
The Arkansas governor knows that America's real economic problems are long term: the challenges of opening foreign markets to American-made products, the effect of the conclusion of the cold war on the defense industry, excess private and government indebtedness, and a continuing surplus of commercial real estate. Clinton also ought to know that there are no short-term solutions to those problems. He has been correct to focus on the nation's long-range need. It would be a shame if a newly elected Bill Clinton ended up spending billions of dollars and precious credibility in search of a quick fix.



CLINTON:
FORESEEING
PAINFUL
CHOICES



THE LETHARGIC ECONOMY



not come in there to pay for these programs, we will cut other government spending or we will slow down the phase-in of the programs."

That suggests Clinton may not be receptive to calls for a quick economic fix. But if the economy remains sluggish, pressure will build on Clinton to act boldly—not just for the long term but for the short run as well.

Stimulus schemes come in two flavors: a speedup in public-infrastructure spending and some sort of business tax cut. Spending boosters argue that since the checks would be written any-



AME LEPHANTS

OP lobbyists are scrambling to get a foothold with Clinton's crew

At Maison Blanche, a trendy eatery near the White House, the staff is in shock. Ask a waiter about the possible arrival of Bill Clinton's Arkansas aides, and he sniffs: "They'll probably be ordering something with ketchup."

At Bush-Quayle campaign headquarters, the mood is grim and the humor is to pitch black. "It's over," concedes a campaign official. The hottest item in the Death Watch underground? Boot-videotapes of Budget Director Richard G. Darman masquerading as Clinton savaging President Bush's economic policies in a mock debate.

Now, but with a sigh of finality, a Washington accustomed to 12 years of plastic Republicanism is bracing for onslaught of the Democratic Visions. And no one is bracing more than city's elite lobbying firms and trade associations. There, one can hear the



rustle of phone books being frantically thumbed, as Republicans struggle to find someone—anyone—who has a friend who went to Oxford with Clinton.

Elections like this one are tough, says Washington attorney Frank Shuchat: "Republican Rolodexes become redundant." Adds Democratic lobbyist Mark Siegel: "A lot of people cut themselves off from Democratic decision-makers thinking that they would never have to deal with them in their lifetime. Now, their worst nightmare is coming true."

Some of the biggest jitters are being felt by foreign corporations, drug manufacturers, the medical lobby, and insurance companies. Clinton has vowed to end alleged price-gouging by drugmakers and hinted at price controls. So the Pharmaceutical Manufacturers Assn. has been trying to open direct lines of communication to Little Rock. And when

Clinton recently toured a Merck & Co. facility, company officials made the case for restraint.

Food-industry lobbyists aren't taking any chances, either. Fearful that Clinton might mandate tough labeling rules, food processors are seeking out the few friendly faces they can find in the Clinton camp. One contact: Caren Wilcox, a Hershey Foods Corp. government-relations director who has taken a leave to work on Clinton's political staff.

'A SPLENDID TIME.' But business has no idea whether these overtures will pay off. "A lot of this [early] lobbying is wasted," says a top biotech lobbyist. "The best story I've heard is of a European Community official who went to Little Rock and wound up sitting in a cafeteria talking to some 27-year-old who was trying not to fall asleep."

Still, they come, checking into Little Rock's Excelsior Hotel and occasionally ordering something daring, such as chicken fried steak, at a local restaurant. Four top officials of the American Medical Assn. made the trek in September to chat up Campaign Manager David Wilhelm and Atul Gawande, the young aide in charge of health issues. Clinton wants to include a plan to control health costs in his "100 Days" agenda, and doctors worry about his goal of setting a government cap on health spending.

Hospitals are just as nervous. Michael D. Bromberg, executive director of the Federation of American Health Systems, says he has already had several contacts with Clinton people. "Our concern is: Who will control the heart and soul of Bill Clinton over health care?" He's trying to figure out who will wind up on Clinton's transition team. But that approach may not reap big dividends this time. The Arkansan may bar transition-team members from cashing in after January by prohibiting them from lobbying Administration contacts in their areas of expertise.

Even that Perot-like chastity can't dampen the spirits of long-exiled Democrats. Frank Mankiewicz, vice-chairman of the Hill & Knowlton lobbying empire,

CAN YOU SAY 'PRESIDENT CLINTON'?

An irreverent guide to
the capital's emerging
power structure



WHO'S IN

PATTON, BOGGS & BLOW Democratic
National Chairman Ron Brown's firm

NATIONAL EDUCATION ASSN.
Teachers gave Clinton an A-plus

NATIONAL CONSTRUCTORS ASSN.
Did somebody say infrastructure?

PROGRESSIVE POLICY INSTITUTE
Clinton's favorite centrist think tank

FLORIDA AVENUE GRILL Washington's
soul-food mecca for hungry Little Rockers

WHO'S OUT

BLACK MANAFORT STONE & KELLY Home of top
Bush campaign official Charlie Black. B-r-r-r.

PHARMACEUTICAL MANUFACTURERS ASSN.
Clinton is aiming his budget ax at drugmakers

U.S. CHAMBER OF COMMERCE
A supply-side redoubt

HERITAGE FOUNDATION
Back to Fringe City

MAISON BLANCHE Where Republican
bigwigs whine and dine. Très outré

says: "I'm looking at the transition as a splendid time." No wonder. Mankiewicz's firm is chock-full of such prominent Democrats as former union lobbyist Howard Paster and former Carter aide Anne Wexler. "The lobbying business for some time has been mostly a Republican business," Mankiewicz says. "That's about to change."

Despite the fear in GOP lobbying

ranks, some Republicans feel that the changing of the guard in Washington may turn out to be good for business. "We're going to take on maybe two more Democratic partners," says a top executive in an old-line GOP lobbying shop. A sign of the times: Cassidy & Associates Inc., a big Washington outfit, has just signed on House Ways & Means Committee member Marty Russo

(D-Ill.), who lost his primary this year. Grins a principal of one top GOP lobbying firm: "Whenever an Administration that's perceived as antibusiness takes over, lobbyists thrive.... We'll do it right." In fact, they're betting their G on it.

By Lee Walczak, with John Can Susan B. Garland, and Dean Foust Washington

THE DEBATES

THE VIEW FROM THE CORNER OFFICE: BUSH IS A GONER

Our unscientific survey finds many CEOs expect a Clinton victory

Resigned... desperate... unfocused... weak... wandering... confused... embarrassing." Sorry, Mr. President. Those pans of your performance in the Presidential debates aren't from the Clinton camp. They're from folks who are supposed to be strong supporters.

BUSINESS WEEK conducted an entirely unscientific survey of Corporate America's brass—an electronic town meeting of sorts—by sending via fax a two-page questionnaire to 24 top executives around the country. Their view: Bush is headed for the showers. Remarkably, although three-quarters of the group voted Republican in 1988, most seem ready for a change to a Democrat. Only two picked Ross Perot to win. "Go, Ross," said one of them, Sun Microsystems CEO Scott G. McNealy.

Respondents to the survey—distributed and returned on Oct. 20 after the final debate—didn't exactly swoon over Arkansas Governor Bill Clinton.

But they thought he had bested the President. "Upbeat... commanding... well-informed... at ease... well-prepared" were typical responses, along with "slick" and "insincere." Alan C. Greenberg, chairman of Bear, Stearns & Co., plans to vote for Clinton, but still grouched that he "looks like a hairdress-

er." Rene V. Anselmo, chairman of Alpha Lyracom Space Communications Inc., complained that Clinton came off as a "polished used-car salesman." Anselmo is still undecided but boldly predicted a win for independent Perot.

Nearly half the respondents agreed with the statement that Bush will lose and "maybe a change would be good." Only one—Martin D. Walker, CEO of Cleveland's M. A. Hanna Co.—checked off the box saying he was "terrified" at the prospect of a Democrat resodding Bush's horseshoe pit.

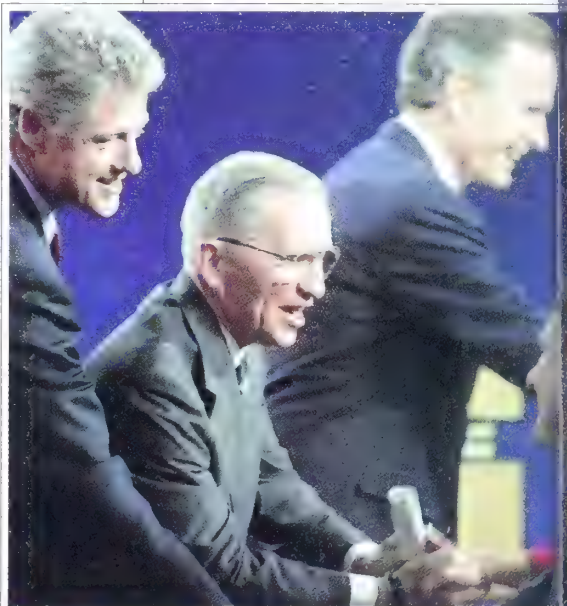
Five executives warned that Clinton won't do any better than Bush. "Clinton hasn't the vaguest idea on how the economy really works," said Gilbert F. Amelio, chief of National Semiconductor Corp. Not all techies dislike Clinton: Thirty software execs, including Microsoft Corp. Executive Vice-President Steve Ballmer, were set to endorse him on Oct. 26.

SELF-HELP. In a survey question of who has the "best grasp of the central issues," Clinton edged out Perot, who seemed a sentimental favorite of many of his fellow plutocrats. The Texan, who says he prepares his own flip charts, got the nod from 14 executives for having "the best understanding of business and of the key problems afflicting the U.S. economy." Perot is "raising issues and saying the unsayable," said Donald B. Marron, chairman of PaineWebber Group Inc.

Surprisingly, for a group that ham-

pered Bush's debating skills and grasp of economic issues, most of executives assigned him little blame for the nation's economic woes. "Most of the blame belongs to Reagan," said Doug Carlston, CEO of Broderbund Software Inc. W. J. Sanders III, CEO of Advanced Micro Devices Inc., assigns Bush "less than 10%" of the onus. Not surprising: Congress also took much of the heat.

When it came to ranking the issues that counted most in determining the votes, most of the executives cited a candidate's ability to manage the economy, enhance competitiveness, and tackle the deficit. Civil rights, privacy, the environment, and social issues? For all b



The executives harshly faulted Bush's debate performance and his grasp of economic issues, but few blamed him for the country's woes. Most gave Republican Clinton the responsibility for that.

four execs, they were down the list. In sum, the faxsters weren't overjoyed about their choices in Election '92. Said J. Paul Grayson, chairman of Micrografx Inc.: "We would be no worse off we selected, at random, any registered voter." Now there's a thought.

By Paul Magnusson in Washington



TANDY

466 DX2

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F1

F2

F3

F4

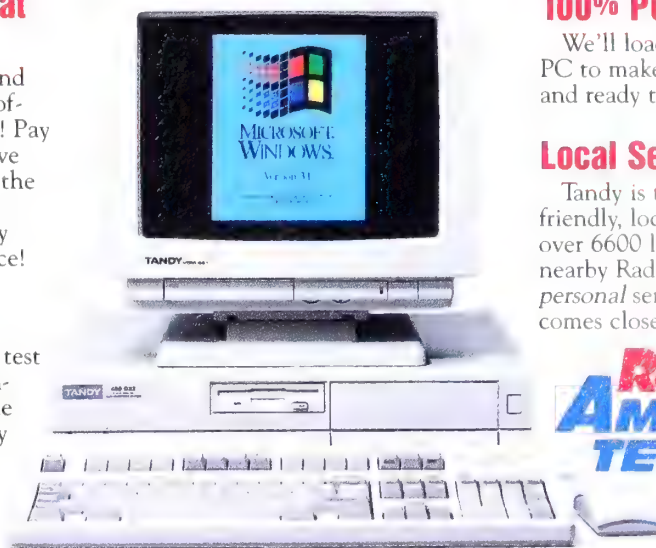
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THE GOOD LIFE ISN'T ONLY IN AMERICA

New stats on living standards have Germany and France close behind

Throughout the Presidential debates, Arkansas Governor Bill Clinton hammered at President Bush by saying that U.S. wages slipped behind those of other industrialized countries during 12 years of Republican rule. Bush concedes that times have been tough since the recession began. But he insists that U.S. living standards remain far ahead of other countries'.

Until recently, economists would have agreed with the President flat out. However, a new study by the Organization for Economic Cooperation & Development (OECD) casts doubt on the conventional wisdom. Its finding: Germany and France are, respectively, only 15% and 18% behind the U.S. in gross domestic product available per capita, the traditional measure of living standards (table). They were 26% and 27% behind in the group's previous survey for the same year, 1990. These countries' productivity levels may be closer to the U.S., too, according to a new study by McKinsey & Co.

STRANGE SWINGS. These conclusions are somewhat tentative. The OECD doesn't know why its new comparisons are so different from its last ones. In fact, the U.S. Bureau of Labor Statistics says it may publish both the old and the new figures and let the public decide which to believe. McKinsey's results aren't conclusive, either, since it relied on the new OECD figures and applied some problematic assumptions of its own. Nonetheless, the studies raise serious questions about whether the U.S. is as far ahead of the pack as most economists had thought. "If you believe the new numbers, Bush is a lot less right than everyone thought and Clinton is a lot less wrong," says Arthur Neef, the head of foreign labor statistics at the BLS, which plans to issue OECD numbers in October.

Most economists agree that the OECD survey provides the best comparison of countries' living standards. The study uses something called purchasing-power parities to adjust for exchange rates. PPPs are the rates at which different currencies purchase the same basket of goods and services in all countries. The OECD derives them from surveys of consumer prices in its 24 member countries.

The OECD's latest run at the numbers

doesn't look good for the U.S. Japan's GDP per capita in 1990 came out at 82% of the U.S. level, vs. 80% in the previous study. More telling, Germany has jumped to 85%, vs. 74% before, while France rose to 82% from 73%. There were several differences between the two surveys, including the method for summing up the prices of goods. However, statistical tests suggest that the

U.S. LIVING STANDARDS: SHRINKING LEAD?

The U.S. advantage in living standards—measured by the amount of gross domestic product available per capita—is smaller than previously believed, according to a study using a new measure of the purchasing power of different currencies

DATA: OECD, U.S. BUREAU OF LABOR STATISTICS

changes should produce swings of only one or two percentage points. "I can't tell you why we have a different set of results this time," says David Roberts, head of the OECD's PPP program. He believes, however, that the new survey results probably are better than the old ones.

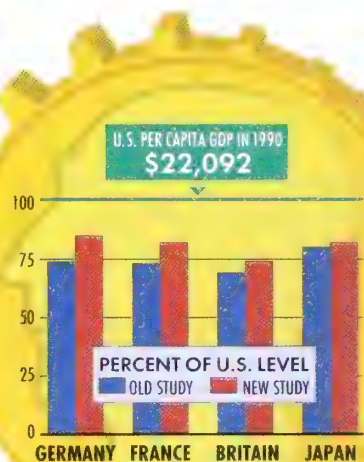
McKinsey's study contains even worse news. With the help of productivity experts such as University of Maryland economist Martin Baily, the consulting company used the new OECD survey to analyze output per worker. It followed two approaches: One estimated the average number of hours that employees in the U.S. and other countries work. McKinsey also estimated the number of

'If you believe the new numbers, Bush is a lot less right than everyone thought and Clinton is a lot less wrong'

full-time equivalent workers, which did by counting part-timers as 50% full-timers. McKinsey then used the OECD's PPP estimates to get GDP per hour worked, a standard productivity measure, as well as GDP per full-time equivalent, another efficiency measure.

McKinsey calculated productivity both ways, using the OECD's old PPP levels as well as the new ones. The result: The U.S. was only 5% more productive than France, using the full-time worker method and the new PPPs, vs. 16% ahead using the old PPP levels. It was 11% ahead of Germany, compared with 25% before. Under the hours-worked analysis, productivity was 10% higher in France than in the U.S. using the new PPPs, vs. behind using the old ones. Germany came out 6% ahead, vs. 11% behind.

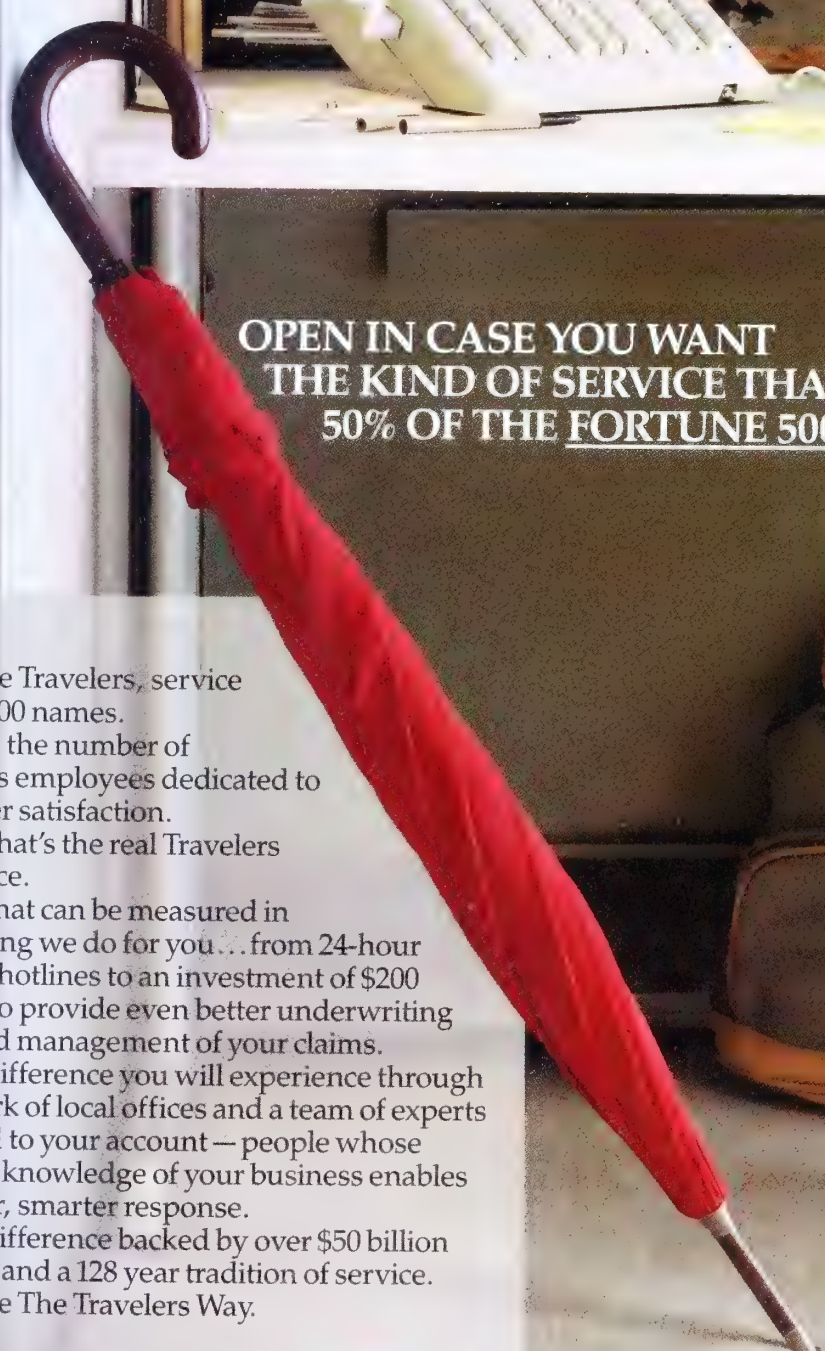
SERVICE SAVIOR. This is the first study to show other nations so close to the U.S. in productivity levels. Since productivity provides the ultimate source of most living-standard growth, the implication is that the trend may send the U.S. slipping even more in the future.



If there's any consoling news in this, it may come from the rest of the McKinsey study. Its primary purpose was to explore service-sector efficiency, which is notoriously difficult to measure. After examining five industries—airlines, telecommunications, banking, retailing, and restaurants—McKinsey found that the U.S. was ahead of Germany, France, Japan, and Britain in most every case. The conclusion: America's well-managed service industries are a key to whatever lead the U.S. still maintains in productivity.

The U.S. economy may be the world's wealthiest and most efficient. But the new studies, while tentative, leave much less comfort on the subject.

By Aaron Bernstein in New York

A red umbrella with a dark handle leans against a desk. The desk is cluttered with office supplies: a multi-line office phone, a pen holder with various pens and scissors, a keyboard, and a computer monitor in the background. The umbrella's tip rests on the floor near an office chair.

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Commentary/by Catherine Yang and Amy Borrus

LET PROSECUTORS SERVE JUSTICE, NOT THE JUSTICE DEPT.

As President Bush staggers into the final days of the campaign, an expanding scandal in his Administration is the last thing he needs. But that's just what he's getting with a stream of revelations about the mishandled prosecution of an Atlanta bank official charged with illegally making loans to Iraq. Both the Central Intelligence Agency and the Justice Dept. admit they have provided misleading accounts.

With political pressure on Bush growing, Attorney General William P. Barr tried to stanch the bleeding on Oct. 16 by naming a special prosecutor to untangle the mess. But Barr's appointment of former Federal District Judge Frederick B. Lacey is little more than pre-election damage control. The Attorney General stopped short of asking for a court-appointed independent counsel under the 1978 Ethics in Government Act. He opted instead for a special prosecutor under Justice Dept. regulations. That's no better than a halfway measure.

Lacey may carry out his duties with integrity. But as a special prosecutor, he'll have to report to Justice. Independent counsels report only to the court that names them. What's more, the court can review the firing of an independent counsel by the Attorney General, but not the firing of a special prosecutor.

FALL GUY. Although it's unlikely, Barr could still reverse a decision made in August and go for an independent counsel. And a Clinton Administration might favor appointing one if possible. Meanwhile, though, the law authorizing independent counsels is set to expire on Dec. 15, and Congress, under pressure from the Administration and Republican senators, has failed to extend it. Congress should correct its

mistake when it returns in January. Lawmakers should revive independent counsels—but they also should fix some problems in the law that the Iraqgate mess highlights.

One of the most glaring defects of the current law is the Attorney General's broad discretion in deciding whether to appoint an independent counsel. That can become a problem in cases where the Attorney General's own impartiality is in question. Consider what

CIA has admitted that it had evidence that the Italian government knew of the loans. The agency says it withheld the information at Justice's request—charge the department hotly denies.

The result: In Iraqgate, the Justice Dept.'s special prosecutor will be investigating his own employer. "There's all the more reason to put the investigation as far from the Justice Dept. as possible, because the department itself is charged with wrongdoing," says

University of Virginia Law Professor Dick Howard.

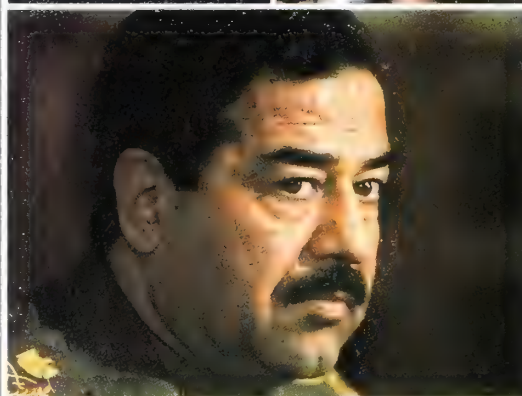
Congress ought to consider a check on the Justice Dept. The U.S. Supreme Court has made it clear that the Constitution requires that the executive branch have some say in the appointment of a prosecutor. But lawmakers should give the courts power to review an Attorney General's decision.

While Democrats complain that independent counsels lack real independence, Republicans have been arguing for years that they're all too independent and lacking in accountability. The Iran-contras probe took five years, cost taxpayers \$32 million and produced few successful prosecutions.

To deal with Republicans' concern, Congress could adopt proposals that would require independent counsels to appear more regularly in court to justify their expenses and to report on the progress. The law also could make clear that prosecutors can't go after misdemeanors.

Voters venting their spleen against privileged Washington insiders should remember that the independent counsel law is a good way to keep the government from abusing power. The Constitution has checks on each branch of government. But the Iraqi loan mess suggests that the public needs the extra protection of an independent counsel.

Attorney General Barr: His appointment of a special prosecutor amounts to a halfway measure—the prosecutor won't be immune to interference



Saddam: The CIA now admits that at Justice's request it withheld information about \$4 billion in loans to an Iraq gearing up for war

happened in Iraqgate. The Atlanta branch of Banca Nazionale del Lavoro, a bank controlled by the Italian government, extended Iraq at least \$4 billion in commodity loans, some guaranteed by the U.S. But some members of Congress suspect that Saddam Hussein diverted the funds to the Iraqi war machine rather than use them to buy American farm products.

When the head of the Atlanta branch pleaded guilty to fraud in June, Acting U.S. Attorney Gerrilyn G. Brill chalked up full responsibility for the crime to one errant bank employee. And the CIA insisted that it had no new information. But in recent weeks, the



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BIG BUDGETS, BOFFO HITS?

Some flicks likely to make the holiday season's top five:

MOVIE	HOME ALONE 2: LOST IN NEW YORK	A FEW GOOD MEN	ALADDIN	BRAM STOKER'S DRACULA	HOFFA
STUDIO	Fox	Columbia	Disney	Columbia	Fox
BUDGET	\$40 million	\$41 million	\$28 million	\$40 million	\$45 million
RELEASE DATE	Nov. 20	Dec. 11	Nov. 25	Nov. 13	Dec. 25
STAR POWER	Macaulay Culkin	Tom Cruise, Jack Nicholson		Gary Oldman, Winona Ryder	Jack Nicholson, Danny DeVito

DATA: BW

YULE LAUGH, YULE CRY

Will Hollywood's Christmas stocking be chock-full of moviegoers?

Mark Canton was a late arrival for Columbia Pictures Entertainment Inc.'s Christmas party last year. After joining the Sony Corp. studio from Warner Brothers Inc. in October, 1991, the Columbia chairman only had time to make some last-minute marketing changes to the studio's two holiday hits, *My Girl* and *The Prince of Tides*. But within weeks, Canton had already bought his Christmas gift for 1992, plunking down \$40 million for director Francis Ford Coppola to update Bram Stoker's classic horror tale, *Dracula*, into a contemporary erotic tale of blood and romance.

Thanks to Canton's early shopping trip, Columbia is in position to win the all-important rush for box-office dollars during the lucrative Thanksgiving to New Year's period. In addition to *Bram Stoker's Dracula*, Canton's studio will also release *A Few Good Men*, director Rob Reiner's adaptation of the Broadway drama about a U.S. Marine Corps. court-martial, starring Tom Cruise and Jack Nicholson.

The two Columbia flicks will fight for the box-office title against *Home Alone 2: Lost in New York*, the sequel to Twentieth Century-Fox Film Corp.'s 1990 smash. The original, which pulled in some \$285 million, was the

third-highest-grossing film in history. The sequel reprises roles for 12-year-old Macaulay Culkin and Joe Pesci.

There's more on Hollywood's holiday plate. Walt Disney Co., will follow *The Little Mermaid* and *Beauty and the Beast* with *Aladdin*, another animated feature. Warner Brothers will release films featuring two bankable stars, Kevin Costner in *The Bodyguard* and Mel Gibson in *Forever Young*.

As many as three of the films could end up as \$100 million blockbusters this year, say industry experts, thanks as much to their star power as to the lack of competing product. With studios such as Orion Pictures Corp. and MGM/UA Communications Co. in the midst of financial problems, Hollywood this season is releasing just 17 films, down from 20 last year, says box-office analyst Exhibitor Relations Co. Still, the unusual

strength of the new films, which include *Toys* with Robin Williams, Fox, could boost overall ticket sales 5% over last year's robust \$1.1 billion, says John Krier, Exhibitor's president.

FULL TILT. With as much as 25% of annual box office at stake during the six-week holiday season, the studios are scrambling to get noticed. As Columbia observes: "This is not a time to lay back." To prove it, Canton moved his release date for *A Few Good Men* from Dec. 18 to Dec. 11—the same night that Fox had planned to open another Nicholson film, *Hoffa*. Fox backed down, and *Hoffa* now will open on Dec. 25. "The way we look at it, if *A Few Good Men* is as strong as we think it'll be, we'll get a lot of publicity for our own very good Jack Nicholson film," says Fox Executive Vice-President Tom Sherak.

One film that could get lost in the crush could also be one of the year's most controversial: *Malcolm X*. Spike Lee film for Warner Brothers exceeded its \$28 million budget by \$5 million. Lee also had to settle a lawsuit brought by photographer George H. Day, paying him an estimated \$100,000 for the use of his Rodney King videotape. The film, finished with funding from Bill Cosby, Oprah Winfrey, and others, has won mixed early reviews. "The question," says Krier, "is whether it will cross over to white audiences."

If not, *Malcolm X* will fall into that general Hollywood category of potential and little box office. It's a well-stocked graveyard, with more than its share of ghosts of Christmas past.

By Ronald Groover
Los Angeles



TOM CRUISE IN A FEW GOOD MEN: COLUMBIA EXPECTS THE DRAMA TO BE A SMASH



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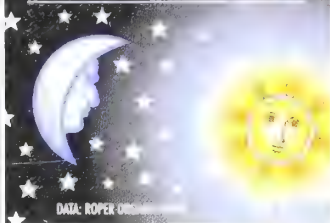


EDITED BY DEIDRE A. DEPKE

TIME ENOUGH FOR SLEEP

Oct. 25 at 2 a.m. is the moment America switches from daylight saving to standard time. What to do with an extra hour? TAG Heuer, a Swiss watchmaker, hired a polling group to find out. It asked 1,994 men and women how they would spend the 25th hour in a day. Here are their most common responses:

RESTING	20%
READING	14%
EXERCISING	11%
WORKING	2%
WATCHING TV	1%



GM'S STEMPEL SELLS A SLICE OF HIS STAKE

► When the going gets tough, do the tough sell stock? General Motors is set to report a third-quarter loss near \$845 million, and its board wants Chairman Robert Stempel to speed up the restructuring.

The stress may be showing: In October, Stempel was hospitalized for high blood pressure. And here may be another straw in the wind: Stempel has unloaded some of his GM stock. In August, he sold 6,000 of his 15,000 Class-E shares, which reflect the performance of EDS, GM's computer-services unit. Stempel still holds about 49,000 shares of GM common.

IS ANYONE KICKING LAMBORGHINI'S TIRES?

► Down the road at Chrysler, Lamborghini may be back on the block. At the recent Paris auto show, Chairman Lee Iacocca said three buyers have expressed interest in the unit—two from Italy and one in the U.S., says *Ward's Automotive Reports*.

But with sales of exotic cars, such as the \$200,000 Lamborghini Diablo, on the skids, it's unclear who would cough up Lamborghini's \$40 million estimated value. Chrysler, which paid \$25 million for the sports-car maker in 1987, says it ended its search for a buyer a year ago because of the slump.

BAD REVIEWS FOR MERCK'S PROSCAR

► Prospects for Merck's prostate-shrinking drug, Proscar, may be shrinking. The drug, used to treat enlarged prostates, is often less effective and more costly than surgery, according to a urologist's editorial in the Oct. 22 *New England Journal of Medicine*.

The editorial was based on data contained in the journal's cover article, in which Merck scientists reported on the successful results of their clinical trials of the drug. Dr. Paul Lange of the University of Washington, who was cited in a *BUSINESS WEEK* article last July questioning the drug's effectiveness, remains unconvinced. He also warned that using Proscar can hamper prostate-cancer detection.

In any case, prescriptions

THE JOE SIX-PACK CHAIR IN TACKLING?

Talk about well-endowed athletes. At the University of Southern California, alumni aren't limited to shelling out the cash for boring endowments such as chairs in history or professorships in science. Not when the Trojan football team needs money. That's why the school has set up an endowment program for athletic positions. Here's how it works: Donors choose a team position, then fund the slot with a \$250,000 gift. USC invests the money and pays out a percentage of the income as a scholarship for the student who plays the position.

So far, the school has endowed its entire first-string football team and is working on the second string. Recently, G. Leyton, a former mayor of Brea, Calif., endowed the center position on the men's basketball squad. All told, nearly 9% of USC's athletes are endowed. That's just a tad behind the 11% faculty whose spots are endowed. Next: tenure for jocks?



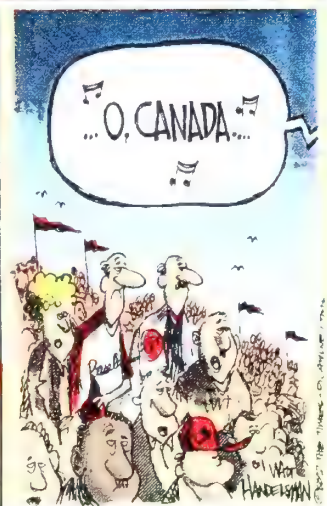
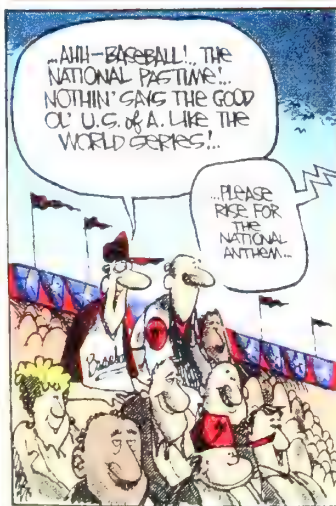
for Proscar are running below expectations. Consultant Hemant Shah now expects annual Proscar sales to peak at \$500 million by the late 1990s. New prescriptions in September totaled 26,000, up just 4,000 from August, and a fraction of what analysts had at first expected.

LENNAR ON LAWSUITS: OUR HOMES ARE SOUND

► Stung by post-Hurricane Andrew criticism that its homes were poorly constructed, Lennar has struck back. On Oct. 20, the company announced that its own study shows that Lennar-built homes fared no worse—and some cases better—than homes in nearby communities. “We have not found one instance where construction defects have led to damage to any of our homes,” says Chairman Leonard Miller.

Florida's largest home builder faces two lawsuits alleging construction defects. One was filed in May, 1992; the other in early September. “It appears to me they are the inspections done by the same people they had prior to the hurricane,” says L. Robles, one of the attorneys who filed suit.

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BLOCKBUSTER GOES MULTIMEDIA

► Blockbuster Entertainment is branching out of the video rental business. On Oct. 1, the Fort Lauderdale (Fla.) company agreed to buy Sound Warehouse and Music Plus, a deal valued at \$185 million in stock and cash. The music retailers operate 236 stores in 35 markets.

The move is part of Blockbuster's plan to diversify into “home entertainment,” with stores carrying a broad array of entertainment products.

You've heard what the political candidates have to say about health care reform. Now perhaps you'd like to hear from America's doctors.

Health care reform is high on our nation's agenda. In recent months, several health care bills have been put before Congress. Proposals range from mild reform to radical overhaul.

There's little question that the American people are asking for change.

Millions of full-time employees and their families are now living without health insurance because of its cost.

Those who have insurance often lose their coverage when they change jobs, simply because of a prior illness.

And Medicaid, the public health care program that was created to help the poor, currently excludes more than half of those desperately needing care.

The 300,000 member physicians of the American Medical Association think this is wrong. We believe our system *must* be improved. And we have a proposal, called Health Access America, that will provide affordable health insurance to *all* Americans, while containing costs and preserving individual freedom of choice.

Most people in this country *do* receive high quality medical care. But 35 million Americans are falling through the cracks in the system. Shouldn't they be included, too?

If you would like to learn more about Health Access America, write Dr. Jim Todd, Dept. 405, American Medical Association, 515 North State Street, Chicago, IL 60610. Or call us today at **800 621-8335**.

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THE HANDS CLUTCHING CLINTON'S COATTAILS

halk up yet another political tradition that has fallen by the wayside. Democratic congressional candidates used to spend the closing weeks of a Presidential campaign running as far as possible from the standard-bearer's sinkship, lest they be dragged down in the undertow.

But on a recent visit to the Italian market in South Philadelphia, Bill Clinton found himself mobbed by Democratic faithfuls clutching at his coattails. The first to dash to Clinton's aid was Marjorie Margolies Mezvinsky, who is seeking a Republican-held House seat on the ritzy Main Line. Close behind were Lynn Yeakel, who narrowly trails Republican Senator Arlen Specter, and Representative Peter P. Kostmayer, who is fighting to survive in a heavily Republican suburban district that nonetheless leans toward Clinton. "In the past, I couldn't even go to a rally like that," Kostmayer admits. "But this year, it's different."

PARTY. How much can Clinton help other Democrats if his big lead holds? Separate estimates by pollsters John Darden and G. Terry Manana found that Democrats down the road may pick up three to five percentage points. That could be a big boost to beleaguered Democratic incumbents, many of whom are polling about 10 points below their victory margins.

Republican officeholders may be more likely to become the victims of the anti-incumbent fervor they helped to stir up. "The public," says San Francisco pollster Mervin Field, "has bought Bush's argument that divided government leads to block. And they're saying: 'Let's give one party a try.'" Not surprisingly, the Republican candidates who cozied up to Bush four years ago are running away now. Three incumbent Republican Senators—Dan Coats of Indiana, Charles E. Grassley of Iowa, and Robert W. Kasten Jr. of Wisconsin—are

airing TV spots critical of the "Washington Establishment"—including pictures of Budget Director Richard G. Darman and former White House Chief of Staff John H. Sununu. In the most extreme case, Specter's ads note his areas of agreement with Clinton, while blasting Yeakel as too liberal. "These candidates can smell a loser a mile away," says Darden. "Very few people intentionally hook their wagon to a loser."

Barring a last-minute collapse of the Clinton juggernaut, GOP strategists are resigned to a gain of only about 10 House seats, down from earlier estimates of 40. Clinton's pull appears to be strongest in such battleground states as California,

Florida, Georgia, and Michigan, where redistricting held out the prospect of big Republican gains. In Senate races, Democrats hope that Clinton's strength will allow them to unseat incumbents in Oregon and Pennsylvania and snag open seats in California and Washington. And Clinton's coattails could save embattled Democrats John Glenn of Ohio and Terry Sanford of North Carolina. "We're expecting a close race," says Sanford aide Anna Driver. "It definitely could help."

The Republican discomfort is sweet revenge for Democratic strategists. In 1984, top Clinton adviser Paul E. Begala worked for unsuccessful Texas Senate candidate Lloyd Doggett, who would have nothing to do with nominee Walter Mondale. "We were running from the national ticket like a devil runs from holy water," he recalls. This year, Democrats are begging for Clinton to appear with them. Cackles Clinton senior strategist James Carville: "If it keeps going like this, we'll probably have Republicans running to join us on the stage." It might be a tad early for such cockiness. But after three straight Presidential catastrophes, Democrats can be forgiven for basking in the glow from the top of the ticket.

By Richard S. Dunham



PENNSYLVANIA VOTERS SIZE UP YEAKEL

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PITAL WRAPUP

TERS

From MTV to debates to syndicated talk shows, the 1992 campaign has been the most media-intensive in history. But all the exposure doesn't seem to have increased voters' political I. Q. very much. A survey of 600 registered voters by Michael J. Morgan of the University of Massachusetts found that 50% knew President Bush had a dog named Millie, but fewer than 15% realized both Bush and Clinton supported a death penalty. Asked whether welfare, foreign aid, or defense accounted for the biggest share of the budget, 46% chose foreign aid, 32% picked welfare, and only 23% correctly selected de-

fense. Says Morgan: "This study paints a picture of an electorate that knows little about the candidates and even less about the issues. Most voters have absolutely no idea how their tax dollars are spent."

LEGAL REFORM

The idea may not come up until Dan Quayle's 1996 campaign for the White House, but the Vice-President's aides have finally found a tax they like: As part of the crusade to reduce litigation, they're exploring a windfall-damages tax. Proceeds from the surcharge on punitive-damage awards in product-liability and malpractice cases would go to compensate victims.

MONEY POLITICS

The folks who run \$7 billion worth of institutional-investment portfolios expect Clinton to win, are unhappy at the prospect, but don't plan to change their behavior significantly. That's the conclusion of a survey of the world's 100 leading institutional investors by the proxy-solicitation firm of D.F. King & Co. Participants favor Bush over Clinton 46% to 25%, but 62% think Clinton will prevail. Still, 74% say the outcome of the election will have no effect on their near-term global allocation of assets. And only 14% say they expect to reduce exposure in U.S. markets if Clinton wins.

SWEDEN

SWEDEN FIGHTS TO COME IN FROM THE COLD

Faced with an economic winter, the Swedes are dismantling the welfare state in order to compete

In the background, floor-to-ceiling windows offer spectacular views of Stockholm's harbor. Inside, scores of people sit at rows of desks and computers that stretch back the length of a football field. The nerve center of some Swedish corporate titan? Quite the contrary. It's a job-retraining center, where laid-off white-collar workers take business courses. And even this busy complex will soon fall victim to Sweden's economic woes and be sharply cut back.

Not long ago, Sweden thrived as one of the West's most generous nations, where human welfare mattered at least as much as the bottom line. But today, unemployment—virtually unknown in postwar Sweden—is soaring, while output is sinking. Stockholm's real estate market shows plenty of vacant, dusty shops and empty office buildings. Unusually early snows in October herald a bitter winter ahead. Says Jacob Palmstierna, chairman of Nordbanken, a state-owned bank: "This is symptomatic of the economic climate we have."

HARD-PRESSED. It's certainly cold out there for such Swedish multinationals as carmaker Volvo, telecommunications innovator Ericsson, and appliance maker Electrolux. For a nation of only 8.6 million, the worldwide reach of these giants has long been crucial to its prosperity. But now, nearly all of them are in the midst of wide-ranging cutbacks and are being forced to make major reassessments of their strategies, if not their identities as Swedish companies. To draw back the multinationals and lure in new investors, the conservative government is embarking on a bold gamble to cut taxes and social benefits.

Yet, with domestic conditions so depressed, there's uncertainty over whether some of the proud old corporate names can go it alone. Volvo, for example, has seen the Swedish market for cars shrink from 350,000 to 160,000 over the past four years. Now, it may shutter two modern Swedish plants at Kalmar and Uddevalla, which operate at just 60% of capacity. Volvo's leaders have concluded that its salvation as an auto

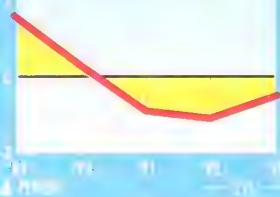
maker depends on deeper ties with France's Renault. Loss-ridden Saab Automobile, which on Oct. 20 announced production cuts at three Swedish plants, has already sold a 50% stake to General Motors Corp.

Another shining star may be too small to stay independent. Ericsson has grown

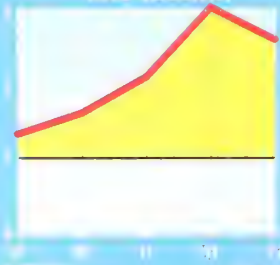
into a world leader in digital mobile phones and public-telephone switching and is pumping a hefty 20% of sales in research and development. But with markets slowing and competition stiffening, it will be hard-pressed to keep the pace. Profits were down 83% in the first half. "My strategy is to try to go

SWEDEN'S ECONOMY STUMBLER GROWTH HAS TURNED NEGATIVE...

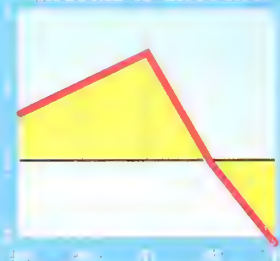
CHANGE IN GROSS DOMESTIC PRODUCT



UNEMPLOYMENT HAS RISEN...



...AND DISPOSABLE INCOME IS ERODING



SOURCE: SVEDESKA HANDELSBANKEN, INC.



ie," says CEO Lars Ramqvist, who ad-
s he's up against "some of the most
petent companies in the world."
he government hopes that its grand
eriment to send the economy along
free-market path of the U.S. and
ain will make Sweden more competi-
. Individual and corporate taxes have
n sharply reduced, to among the low-
in Europe, while the public sector,
ch accounts for 37% of all jobs, will
dramatically shrunk. The goal: build a
e-open economy that's prepared to
er the European Community in 1995.
he architect of the makeover is a
ight-talking author of three books on
ope and free markets, 43-year-old
ne Minister Carl Bildt. In office just
ear, Bildt has fought off an assault
the krona, engineering an incredible
in short-term rates—to 500%—to
back speculators. In late Septem-
he achieved a stunning political
promise with the opposition Social
ocratic Party on a sweeping econ-
omic-crisis package that
cuts sick pay, days off, and
pensions.

Central to Bildt's strate-
gy is reversing nearly 20
years of eroding industrial
competitiveness, which has
included a steady flow of
investment into Europe and
the U.S. Some claim, for
example, that Sweden's so-
cial security puts it at a
10% cost disadvantage to
key European competitors.
For the most part, polls
show that Bildt enjoys
broad popular support.
Business executives say
this signals a decisive turn.
"This is becoming an inter-
esting place in which to in-
vest," says Erik Belfrage,
a senior adviser in the gi-
ant Wallenberg group.

In the short run, certain-
ly, the adjustment will be
painful. Interest rates are
now a lofty 14.5% in the af-
termath of a campaign that
has beaten inflation from
9.3% in 1991 down to just
2% today—the lowest in
Europe. Real estate values
have plummeted by 50% in
Stockholm since 1990.

DELAYS. The consequences
for the banks—and the
government—could be dire.
Bad bank loans totaled
nearly \$6.4 billion last year
and are likely to be up two-
thirds in 1992. The govern-
ment has already taken full
control of No. 3 Nordban-
ken and the parent of No. 4

CARL BILDT: A NEW SWEDEN FOR A NEW EUROPE

Sweden's reputation as the welfare state that works has been tarnished by a severe economic downturn. Europe's currency, as well as political, uncertainty compounds the problems. To find out how Sweden can transform itself, BW London Bureau Manager Richard A. Melcher interviewed Prime Minister Carl Bildt, 43, in Bildt's sleek, blond-wood office. Here are some excerpts:

Q How have Europe's jitters affected you?

A What was not foreseen was the amount of instability we had in the entire European system. That caught us, to a certain extent, by surprise.

Q Will it be hard to persuade Swedes to join the European Community?

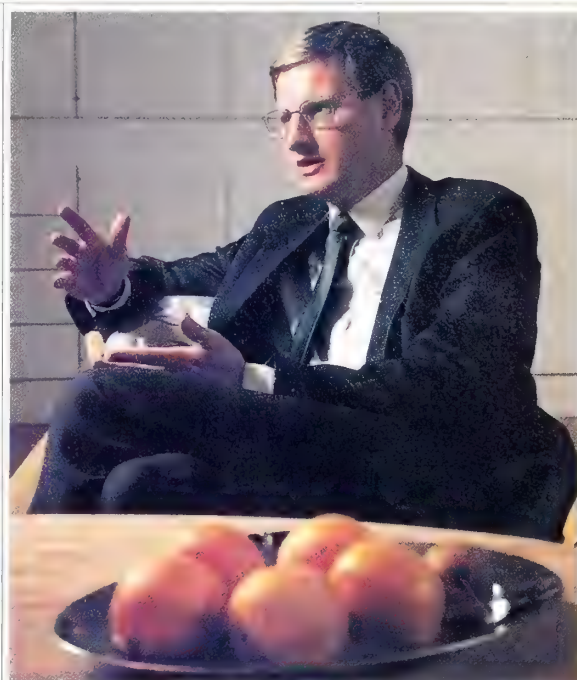
A Yes. The dominant mood is of uncertainty. We will have a major debate that is going to run for a year.

Q Will Swedes go along with your tough market remedies?

A I think most people understand that we can't go on living as we have been doing... We have increased the pension age, and we have trimmed down the sickness insurance benefits and a lot of other things. We have proved that if there are sacred cows, this isn't India, this is Sweden, and we're capable of national decision-making in a critical period.

Göta Bank. With markets down 25% this year, Bildt has been forced to shelve temporarily his plan to raise \$26 billion by privatizing some 35 state industries.

The key question: When will all the pain start yielding a new competitive advantage? There are some positive signs on the horizon. After years of productivity gains that lagged behind others in Europe, Sweden is likely to be among the leaders for the next two years. Combine the improving labor market, lower social costs, and a drop in personal and corporate taxes, and suddenly Sweden becomes a far more attractive place to invest. Take Electrolux, the world's



Q How will such stern steps affect Sweden's competitiveness?

A The good news is that we are improving the competitive position of the economy. Private industry is getting a radical improvement of its position by cuts in taxation and by the fact that inflation is now virtually out of the system. There is no way in which Sweden can survive as a rich and prosperous nation if we are not competitive in the new Europe. And we have lost a lot of our competitiveness during the '70s and '80s because of our political mistakes.

Q Is Sweden, then, no longer a caring society?

A You can only be a caring society if you've got a strong economy.

No. 3 appliance maker, which like most Swedish multinationals has been shifting investment abroad for years. Now, Electrolux will be doing all its refrigerator production for Northern Europe and much of its vacuum production for the Continent at two sites in Sweden.

In the meantime, Bildt can do little more than hope for a boost that a worldwide recovery would bring—perhaps in a year. Still, Sweden's competitors are hardly standing pat. Economists are worried about a spate of bad export numbers. Such pressures are certain to force even more change.

By Richard A. Melcher in Stockholm

FOR BEIJING'S BRAT PACK, THERE'S PLENTY OF ROOM AT THE TOP

The privileged, market-minded children of China's rulers have key posts in government and business

When Deng Xiaoping makes a rare public appearance, he is sure to bring along his most trusted aides: his kids. On the last day of the 14th Party Congress of China's Communist Party, the 88-year-old, his left hand trembling uncontrollably, was supported by Deng Rong, his daughter and personal assistant. During his highly symbolic visit to freewheeling Guangdong province earlier this year, he was aided by another daughter, Deng Nan. "Deng's daughters now interpret what he says, since no one can understand him," says a Western diplomat in Beijing. "It's difficult to know whether they are relaying their father's words, whether other people are leaning on them, or whether they are setting the agenda."

What is clear is that as China's leaders age, their children are playing increasingly important roles. Whether as budding political stars, provincial leaders, or business kingpins, this brat pack is becoming a major force behind market-oriented reforms. Deng's children hold a wide variety of important posts (table). Overall, by one account, some 3,100 of these *taizi*, or princelings, as they are called in China, already hold top positions

within the party, while many more are key players in business. In Hong Kong alone, there are thousands, if not tens of thousands, who are learning to make money in the capitalist big leagues.

One obstacle to the brat pack's rise is the widespread resentment they evoke among ordinary citizens. Some complain that the *taizi* are reminiscent of the privileged offspring of the emperors. The creeping power of the *taizi* was a prime target of the ill-fated student protests in Tiananmen Square in June, 1989. Fear of rekindling such feelings may be one reason only a few of them were elevated to the Central Committee during the October congress.

SILVER SPOONS. But the scripted announcements from the congress don't tell the whole story. For instance, the leaders' children are increasingly found in key positions in China's provinces, where market reforms are roaring ahead. The party secretaries of such key cities as Fuzhou, Chongqing, and Da-

tong are all related to powerful party bosses.

Given their privileged upbringing with access to drivers, maids, Western goods, and excellent educations, it's no wonder the *taizi* have little use for the old, Spartan communist way. Take Chen Yuan, the son of old-timer Chen Yun, proponent of central planning. Chen Yuan graduated from prestigious Qinghua University, the MIT of China, and now regularly attends World Economic Forum meetings. Westerners who have met him say he is articulate and competent, nowhere near as hard-line as his father.

The brat pack's outlook has also been influenced by their having broader international horizons than other Chinese. Deng Xiaoping's son, Deng Zhifang, who studied physics at the University of Rochester, now works as assistant general manager for China International Trust & Investment Corp. (CITIC), Beijing's main investment arm. And even Communist Party head Jiang Zemin has a son, Mian Jiang, who received a doctorate in electrical engineering from Drexel University in Philadelphia in 1991. "They have exposure to policymaking, and, having lived abroad, they have a greater sophistication," says a Western diplomat.



WHAT DENG'S FAMILY DOES FOR A LIVING

DENG LIN DAUGHTER

President, Eastern
Art Exchange Assn.

DENG PUFANG SON

Chairman, China Welfare
Fund for Handicapped

DENG NAN DAUGHTER

Vice-chairman, State
Commission of Science
& Technology

DENG RONG DAUGHTER

Deng's personal
secretary

DENG ZHIFANG SON

Assistant general manager,
China International
Trust & Investment Corp.

ZHANG HONG SON-IN-LAW

Bureau director,
Chinese Academy
of Sciences

WU JIANCHANG SON-IN-LAW

Vice-president, China
National Nonferrous
Metals Industry Corp.

HE PING SON-IN-LAW

Deputy director,
Armaments Dept.,
Chinese army

Official Overseas Ballot Box.



The Democratic and Republican Parties have selected DHL as the official overseas air express carrier of absentee ballots for Americans abroad. ■ This election year, DHL Worldwide Express will pick up ballots from 204 foreign countries, free of charge. ■ After all, both political parties want someone they can count on to deliver the vote.



FASTER TO MORE OF THE WORLD
1 • 8 0 0 • C A L L • D H L

says a European diplomat in Beijing.

Business may be where the *taizi* have the greatest influence. Now that the party has put its collective stamp of approval on getting rich, many of the brat packers are eager to do so. Bo Xicheng, son of Bo Yibo, a conservative party elder, is a former director of Beijing's state tourist bureau. Now, he plans to form a hotel-management group with three friends. "With his connections," says one Western official, "if Bo Xicheng came to Hong Kong and offered to open doors, he could raise \$50 million overnight."

TAINTED BY CORRUPTION. As it becomes clear that the party is less and less the road to advancement, others are following in Bo's footsteps. No doubt many would like to emulate the success of Larry Yung. His father, Rong Yiren, known as the Red Capitalist, helped establish CITIC. In 1987, Yung took charge of CITIC Hong Kong (Holdings) Ltd., where he has built assets to nearly \$4 billion. He has also raised a few eyebrows. In August, Yung was fined \$646 after police spotted his Acura weaving in traffic. But that didn't stop Hong Kong Governor Christopher Patten from naming Yung to his new Business Council, an advisory board. Another heavyweight at CITIC Hong Kong is the chairman, Wang Jun, son of Wang Zhen, the former vice-president of the National People's Congress.

The princeling class is suspected of using *guanxi*—connections—to cut deals. For example, some run companies that sell arms for the People's Liberation Army (PLA). Two such companies, state-owned China North Industries Corp. and Polytechnologies Inc., are known for hiring officials' kids. To make foreign sales, these employees can go straight to the top for approval. In the late 1980s, Western officials suspected that Deng Xiaoping's son-in-law, He Ping, a deputy director of the PLA's Armaments Dept. also arranged some arms sales, including Silkworm missiles to Iraq.

No matter how savvy they are, the *taizi* are often tainted by corruption. Even Deng's wheelchair-bound son, Deng Pufang, who was crippled after Red Guards threw him out of a window during the Cultural Revolution, was involved in a scandal. Although he denies any wrongdoing, a trading company he ran was shut down for misusing funds. Now, he heads China Welfare Fund for the Handicapped.

Even without controversy, the *taizi* are a force to be reckoned with in the future. Their parents are making sure of it.

By Joyce Baranathan in Beijing

JAPAN

AND YOU THOUGHT JAPAN COULDN'T LEARN FROM DETROIT

Slow sales have carmakers and dealers trying new ways to snare buyers



"LESS INTIMIDATING": TOYOTA HAS A TOKYO SHOWROOM STAFFED ENTIRELY BY WOMEN

Masako Hyodo, a 35-year-old research assistant in Tokyo, got a pleasant surprise when she went shopping to replace her three-year-old Integra: The economic slowdown is giving Japanese car buyers a lot more room to wheel and deal. A Toyota Motor Corp. dealer offered to knock 30% off a Celica sticker, and showrooms stayed open late to suit her schedule. In the end, she snagged a silver Honda Prelude for \$16,600, after a trade-in and a \$1,250 discount.

Tough times have Japan's carmakers and dealers looking for new ways to snare buyers. After several years of 8% growth, auto sales in Japan slid 3.9% in 1991 and are off 5.7% so far this year. Operating profit margins at Japan's 2,000 dealers average a mere 0.6%, compared with 1.5% in the U.S. A third of them are losing money.

The squeeze is prompting creative marketing. Dealers are lining up parking places—a scarce commodity that buyers must have before they can legally get a car. They are jazzing up showrooms with Halloween parties and other events. Toyota Tokyo Corolla Co. has a new showroom that's predominantly lavender and staffed by women. "We are less intimidating to customers," says manager Toshiko Suzuki.

To help draw bigger crowds, dealers are breaking a major taboo by joining

forces with rivals to create U.S.-style auto parks with competing models under one roof. Three are in operation now and more are likely. "We study the American case because sooner or later it ends up in Japan," says Kazumasa Goto, executive vice-president for Japanese Automobile Dealers Assn. (JADA).

FEAR OF FINANCING. So far, consumer rebates are unheard of in Japan. There are some low-cost dealer financing available, but it hasn't grabbed Japanese consumers. Typically, they pay cash, using their biannual bonuses or bank savings. Now, JADA is encouraging dealers to promote financing in the belief that it will become a new profit center.

Auto makers have launched a spate of specials, too. For an October sale, Mazda Motor Corp. rolled out just 300 of a two-seater, black-only version of its RX-7—sold them all. Honda Motor Co. is selling Integras with an option package that includes air conditioning, a cassette player, and other goodies for just \$1,000. Priced separately, those options would add up to \$2,100.

To be different, one Nissan Motor outlet throws a monthly party, inviting anyone with a birthday that month in cake. "We do whatever it takes to get them to know us," says sales manager Shoji Senba. In this business climate, gimmick may go a long way.

By Karen Lowry Miller in Tokyo

RANKED

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NEW YORK LIFE INSURANCE COMPANY	1.5
UNITED STATES LIFE INSURANCE COMPANY	1.0

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BRITAIN'S MAJOR IS STUMBLING TOWARD A FALL

In politics, it is often said, it is better to be lucky than clever. With Britain staring economic disaster in the face, and Prime Minister John Major's government drifting, pundits appear to be right. Not only has Major's luck run out, but now it seems as though all his political cunning has been washed away.

Major, like most other heads of state, is struggling to cope with a deepening recession entirely beyond his control. But lately, his government has been on the ropes, and much of the damage is self-inflicted. Chancellor of the Exchequer Norman Lamont was widely discredited after Britain's ignominious exit from the European Exchange Rate Mechanism. Another top Cabinet minister, Michael Heseltine, has lost a great deal of respect since he tried to sack two-thirds of the nation's miners in the midst of the longest recession in 50 years.

LOSING HIS WORDS. Now, after a series of embarrassing policy flip-flops, Major's credibility is sapped. It couldn't come at a worse time. Soon, he will ask Parliament to approve the Maastricht Treaty on economic and monetary union, the centerpiece of his administration. But there are serious doubts that he will succeed.

Just six months ago, Major looked untouched after his Conservative Party won a re-election victory with a vision of a stable, low-inflation economy and closer ties to Europe. But Britain's recession looking more and more like a depression, Major has been forced into retreat as one gloomy economic event after another overwhelms him.

First came the mid-September currency crisis, when the markets forced Major to eat his repeated pledges not to devalue or withdraw from the European Monetary System. Since Sept. 16, Lamont has raised and lowered interest rates five times, creating the impression that things are out of control.

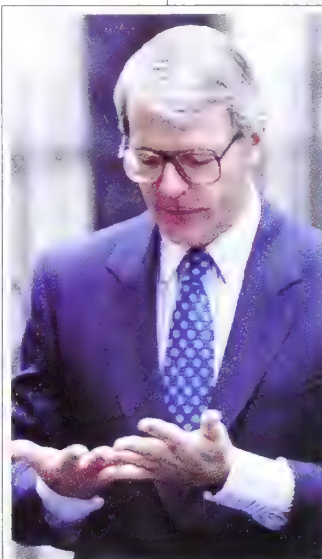
"This is serious," says Howard Davies, director of the Confederation of British Industry. "A lack of confidence in the direction of the economy lies at the heart of our difficulties."

But the ERM debacle pales next to the ham-handed way Major dealt with the coal mines, a dying industry but one dear to British hearts. The announcement that 31 coal mines and 30,000 miners would be lopped off came on the same day that new unemployment figures showed 40,000 workers had been laid off in the last month. Heseltine marshaled lots of economic reasons for closing the pits, but none could overcome the seeming heartlessness of the ruling. Some of the loudest cries of protest came from Tory backbenchers, whose threats to stand against Major in a House of Commons vote forced him into his second big reversal. Now, only 10 mines will be shut down, and then only after a 90-day review.

Major is still sending out confusing signals. After putting the British economy through the wringer in an effort to remain in the European Monetary System, he has just presented an opposite plan to stimulate the economy through increased government spending on capital projects and job training. While business leaders and economists welcome the new plan, they are mystified by what they see as Whitehall's incoherence. "They don't know what they're doing," declares UBS Phillips & Drew economist Bill Martin.

With the usually supportive press abandoning him, the remaining four years in office are likely to be bumpy ones for Major. The rebellion in his Conservative Party means he is going to have to horse-trade to get anything done. Indeed, the whole nation is asking the question the tabloid paper *The Sun* recently screamed in a full-page headline: "Is Major A Goner?"

By Paula Dwyer in London



MAJOR: MANY WOES

GLOBAL WRAPUP

RUSSIA

Western companies are beginning to fall victim to scattered violence in Russia. A grenade thrown at a kiosk station next to the popular McDonald's hamburger restaurant in central Moscow injured several passers-by and customers on Oct. 19. That followed a series of bombings of Marlboro kiosks owned by Philip Morris Inc. in St. Petersburg. While few executives fear widespread attacks on Western businesses, such establishments are resented by some Russians, who see them as symbols of the free market, which they associate with a cashier life. A handful of protesters

opposing capitalism recently rallied outside McDonald's. The onslaught of winter could heighten the tension.

ISRAEL

The government is edging closer to privatizing the phone monopoly, Bezeq. Finance Ministry officials say they are studying a proposal by Southwestern Bell Corp. for a one-third stake with voting control. While Southwestern denies it has made an offer, it already has an interest in Aurec Zahav, publisher of Israel's white and yellow pages. Israel wants to sell a 14% share of Bezeq to an international phone company. But these companies may not agree without more control.

JAPAN

In another sign that Japan's economy is faltering, the country's broadest measure of money-supply growth fell by 0.4% in September from a year ago. It was the first such decline since the Bank of Japan started recording the data in 1967. Prime Minister Kiichi Miyazawa has already proposed an \$87 billion government spending program to perk up the sagging economy, but many economists say that's not enough. With the money supply now falling and consumer spending waning, the Bank of Japan may have to make more interest-rate cuts to get the economy moving again.

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MATSUSHITA ELECTRIC

PANASONIC TECHNICS QUASAR

THE GREAT TRAIN TURNAROUND

Newly savvy, rails are no longer getting run off the road by trucks

When the economy loses steam, goes the conventional wisdom, railroads suffer. So freight carriers must be in sorry shape. Not so fast. Although airlines and shipping concerns are in trouble, railroads are powering along. After a very strong first half, shipments began slowing in August. But thanks to dramatic cuts in the size of freight crews, the paring away of unprofitable track, and more efficient use of equipment, 1992 may still be the best year in decades for many of the nation's railroads.

That hopeful news is only the first chapter in the railroads' comeback. Having cut costs about as much as they can, freight companies are now making moves to boost revenues and win back some of the business lost to truckers over the last two decades. The focus is on customer service, efficiency, new technologies, and innovative marketing. Many railroads are building special facilities for customers to ensure easy and smooth passage of goods. Many are also custom-designing cars to transport products from autos to lumber. And "intermodal" shipments are booming. By linking up with trucks for door-to-door deliveries, trains are tapping new business that had once belonged to trucks.

STACKING. Timeliness has won new respect, too. Where railroads once promised delivery on a given day, or thereabouts, many trains can now time arrivals to within an hour. New equipment and technologies are bolstering profits. In many regions, railroads are taking advantage of new car designs that allow shippers to stack containers on top of one another, doubling revenue. New computer systems are being used to better coordinate scheduling and operations. And sophisticated equipment can now keep track of customers' goods to provide just-in-time shipments.

Trains have already halted their decline against trucks. Now they're determined to raise their share, transporting more premium goods, such as electronics, that provide higher revenues than coal or grain. Then again, if the economy

picks up, even without new market share, railroads can expect a jump of more than 30% in increased revenues over five years, say experts. Here's how three carriers are preparing:

SANTA FE PACIFIC



STRATEGY: Investing heavily in new technologies and computer systems. Linking with trucker J. B. Hunt Transport to offer customers door-to-door service

Five years ago it was hard to say what Santa Fe Pacific Corp. even was. A railroad? A real estate venture? A mining company? The asset-rich company certainly didn't go unnoticed. Acquisitors, including Henry Group Inc.'s Michael D. Dingman, staged takeover plays, hoping to reap a fortune selling some of its disparate parts.

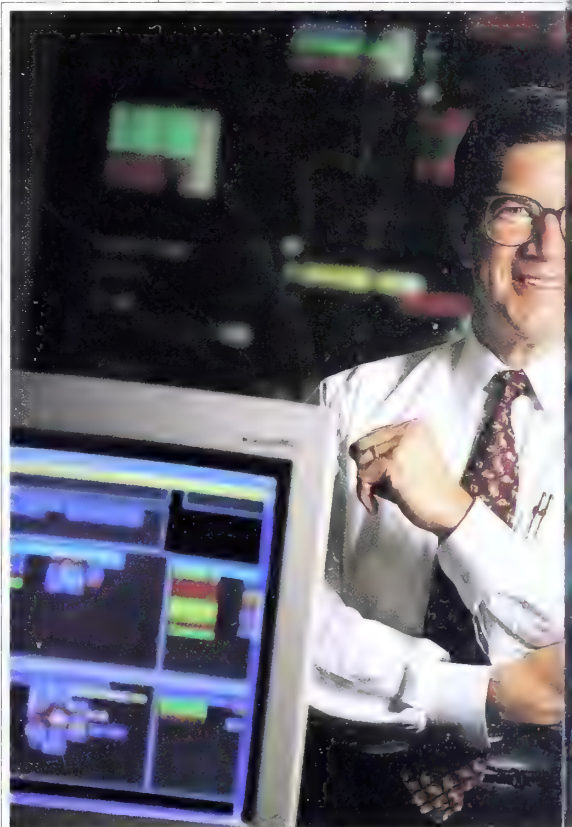
Today there's no question that Santa Fe is a railroad—and an innovative one at that. Chairman Robert D. Krebs, a lifelong railroad man, sent pursuers packing with a \$5 billion recapitalization in 1988. He put noncore assets on the block to chop down debt. And he began building a lean, mean operation in the freight business. Krebs cut train crews in half and eliminated three layers of management. He also shed some 3,200 miles of track, keeping the 8,000 miles that follow Santa Fe's most profitable routes.

Cutting would get Santa Fe only halfway home, though. "We needed a

product to sell," says Krebs. So back in 1990, Krebs struck a deal with J. B. Hunt Transport Inc., a Lowell (A.S.) trucking company. Together they created a novel use of intermodal transport: Hunt hauls trailers to Santa Fe, which carries them cross-country. Hunt's truckers then meet the train and make the delivery. Santa Fe overcame Hunt's resistance to the concept by proving to the two combined could deliver service faster and cheaper than either alone. Others, including Burlington Northern and Union Pacific, have since copied the idea, but Santa Fe's relationship with Hunt remains unique. The companies market their product and split profits while other railroads charge the trucker a fixed amount. Santa Fe now hauls 1,800 trailers a week for Hunt.

AUTO CARRIER. Santa Fe has also spent heavily to improve its product. Over the last three years, it has invested \$75 million in three computer systems that handle everything from scheduling trains to controlling operations. Krebs says the company has improved on-time performance, crucial to keeping Hunt as a partner. The company is also replacing some 25% of its aging locomotive fleet to slash costs and increase reliability.

Krebs hasn't spared a penny to attract new business, either. To win over Uni-Parcel Service Inc., which uses trains to ship many packages across the U.S., Santa Fe built a \$70 million intermodal yard outside Chicago to serve the company. It also won General Motors



...s heart, and \$100 million a year in
ness, by designing a system that can
er auto parts on a just-in-time basis.
a Fe has also developed a new car-
hat can transport up to 18 automo-
s, while a truck-hauler can manage
about a dozen.

ie moves are paying off. The compa-
on Oct. 20 announced a special
ge of \$320.4 million, but without
Santa Fe this year will earn \$149
on, up from \$96 million last year,
icts Susan Chapman, an analyst at
York-based Forbes, Walsh, Kelly &
Not bad for a company that a short
ago couldn't even decide what it
ted to be.

CONRAIL

STRATEGY: Changing
hierarchical culture to de-
centralize decision-making.
Investing to raise tunnel
and bridge clearances
for double-stacking

few years ago, managers at Her-
shey Foods Corp. would have
ted at the idea of moving fresh liq-
chocolate on rail lines between the
any's factories in Hershey, Pa.
trucks could be counted on for reli-
service. But by mid-1993, Consoli-
d Rail Corp. will be moving tempera-
controlled cars the 2.4 miles
een the two plants. Says Scott E.

Buesking, a transportation manager for
Hershey: "I'm going to lay my reputa-
tion on the line and say we can do it with
rail as good, if not better, than with
trucks."

That's a phrase Conrail Chief Execu-
tive James A. Hagen has long ached to
hear. Until recently, any plaudits have
been more in connection with cost-cut-
ting efforts. Although Conrail's reve-
nues have tripped downward since
1981's \$3.6 billion high, to \$3.25 billion
last year, operating income has gradual-
ly edged up as the carrier cut some
36,000 jobs. Analysts forecast a respect-
able \$257 million in net earnings for
1992, against a loss of \$207 million in
1991. To keep that line moving north,
Hagen is focusing on improved service
and facilities. "We've got to produce a
better product," he says.

By many measures, the Philadelphia-
based carrier is already doing that. Rail-
roads have long been intensely hierarchi-
cal—even militaristic—but Hagen has
loosened up the culture, allowing for
more independent decision-making. In
June, when the two-day national rail
strike disrupted U.S. Postal Service
shipments on Conrail, field managers
chartered trucks to keep the mail mov-
ing—not telling Hagen until later. The
speedy action put the carrier in such
good graces with the postal service that
it was spared having to rebid its con-
tract for 1993.

Next, Hagen hopes literally to move
mountains. With double-stacked contain-
er shipments growing
ever more popular, he's
working with Pennsylvania
legislators to raise
the clearances on about
100 bridges and tunnels
across the state by 1995.
To ensure action, Conrail
has promised to shoulder
nearly half the \$88 mil-
lion cost. Hagen says the
profit will come in more
intermodal traffic.

Such moves may well
position Conrail for big
gains. Hagen will contin-
ue to count on the coal
business, which contrib-
utes 17.6% of revenues.
But he predicts a rise in
far more lucrative auto
shipments, which account
for 13.2% of revenues yet
produce twice the cash
per car that coal does.
Even Hershey may chip
in. The candymaker says
improved timeliness may
lead it to choose Conrail
for intermodal shipments
to retailers—for Hagen,
a truly savory thought.

BURLINGTON NORTHERN

STRATEGY: On-site service
coordinators at key
customer locations. Using
barges to get faster service
to Mexico. Emphasis on
timeliness

In 1988, Burlington Northern Inc. spun
off its energy and real estate opera-
tions as part of a plan to maximize
shareholder value. Burlington was the
country's biggest railroad, but "every-
one joked that Burlington Resources got
the gold and we got the shaft," says the
railroad's CEO Gerald Grinstein.

Grinstein believes he will prove them
wrong. He used refinancings and a pub-
lic offering to reduce the company's
debt. Difficulty in negotiating crew re-
ductions for the northern third of its
business will put a drag on profits in
1992. But Burlington's CEO, the former
head of Western Air Lines Inc., is doing
much to prepare for future gains.

PRECISION. For Burlington, too, timeli-
ness has become a paramount concern.
It won high marks from shippers last
year for on-time performance. Still, its
63% on-time record doesn't match the
90% rating enjoyed by the top three
trucking companies. So Grinstein has in-
troduced "Precision Execution" to set
new standards in consistency. The rail-
road strives to deliver cars to its custom-
ers' shipping or receiving docks within
30 minutes of the promised time.

Burlington has many other efforts un-
der way. Its "network control center,"
open since August, monitors real-time
information about traffic and weather
patterns in its Northern, Central, and
Southern corridors at its Fort Worth
headquarters. That helps managers an-
ticipate problems up to 24 hours in ad-
vance. Earlier this year, Burlington also
became the first rail carrier to place an
on-site service coordinator at customer
locations, including Coors Brewing Co.
and ConAgra Inc.

And Grinstein is looking down the
track for new developments. Anticipat-
ing greater trade between the U.S. and
Mexico, Burlington's CEO recently en-
tered into a venture with Mexican barge
company Grupo Protexa S. A. de C. V. to
have rail shipments moved by barge
from Galveston, Tex., to three ports in
eastern Mexico. The new routes—to
open in early 1993—will cut travel times
by as much as a week and allow ship-
ments to preclear customs. It's all part
of Grinstein's plan to "substantially
change the way we run this railroad."

*By Joseph Weber in Philadelphia, Seth
Payne in Washington, Kevin Kelly in
Chicago, and Stephanie Anderson Forest
in Fort Worth*

**ON SCHEDULE:
SANTA FE'S
KREBS CUT DEBT,
CREWS, AND
NONCORE
ASSETS. HE WON
OVER GM AND
UPS WITH
CUSTOM-BUILT
FACILITIES**



PATIENT RAFFIN WORRIES "I WON'T BE ABLE TO CALL ON THE SERVICES I NEED"

HOME INFUSION COULD USE A SHOT IN THE ARM

Legal and financial problems are dogging the industry

Considering the runaway cost of medical care, any company that promises to save up to 50% of hospital charges should be wildly successful, right?

For a while, that was true of the numerous home infusion providers that sprang up during the 1980s. Intravenous drug infusions used to be confined to hospitals. But development of smaller, more sophisticated drug pumps has allowed companies to offer IV injections of everything from antibiotics to AIDS treatments in a patient's home. Providers supply drugs, train patients to administer them, and often arrange for nursing care. Without high overheads, they could undercut hospital costs while enjoying healthy margins. The industry's sales have tripled since 1988, to an estimated \$3.7 billion, and by early this year investors had bid up the shares of leading players to astronomical levels.

PLUNGING STOCKS. But now, the bubble has burst. Worried about spiraling costs, insurers have been aggressively demanding big discounts in recent months. The No. 2 infusion player, Medical Care America Inc., shocked investors on Sept. 25 by warning that its third-quarter earnings, due out in late October, will be flat. The industry has also been rocked by investigations of the common practice

of paying doctors for referrals. Stock prices have plunged (chart), and a shake-out looms. "I foresee a period of absolute chaos and a lot of consolidation," says Patrick S. Smith, Medical Care's chairman. "The little guys will get beaten to death, and three or four big players will emerge at the end."

Even the biggest players are getting walloped. Take Baxter International Inc., which plans a November spin-off to shareholders of its Caremark International Inc. unit, the industry leader. Baxter announced the spin-off in April, when the industry's price-earnings ratios averaged more than 25. A Caremark spokesman insists that the deal is still on. But analyst Neal C. Bradsher of Alex. Brown & Sons Inc. figures that the unit could now achieve a p-e of about 15, valuing it at about \$1 billion. Baxter bought Caremark for 55 times earnings in 1987.

In part, home infusion is a victim of its own success. Its fat operating margins—

about 15% on average, vs. 5% at hospitals—have attracted hundreds of new operators. Now, the crowded field has given insurers the upper hand. "Since January, the larger companies have been very aggressive in offering unattractive rates," says Lawrence Goelman, CEO of Cost Care Inc., of Newport Beach, Calif. The company helps insurers contain costs.

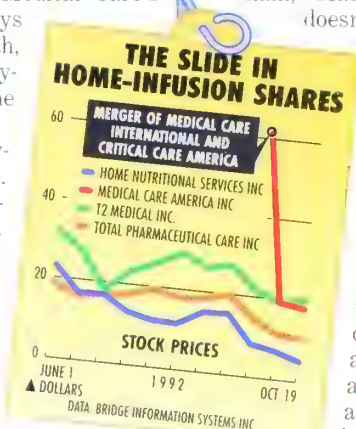
GOUGING. Home infusion also has come under fire for price gouging. "We've seen companies charging \$82 for a syringe, an injecting device and \$15 for hydrocortisone peroxide you could buy at a drugstore for 89¢," says Jacqueline Lewis, a registered nurse who helps set home infusion reimbursement policy at Prudential Insurance Co. Lawrence A. Ross, assistant vice-president for institutional provider relations at Blue Cross & Blue Shield of Rhode Island, adds that his company has sometimes been billed "\$8,000 to \$10,000 a week [for a patient], as much as a hospital stay might cost." To cut costs, the company set up a so-called managed-care network last January. Bidding among providers for the service slots in the network led to 25% to 30% savings, Ross estimates.

Infusion company executives contend that their prices are reasonable, given the 24-hour coverage and high level of nursing care many patients need. They also warn that too much cost-cutting could hurt the quality of care. "As prices come down, some companies will compromise," says Donald R. Kiepert, CEO of Chartwell Home Therapies in Woburn, Mass. "Saving \$15 a week doesn't work if the patient ends up being rehospitalized at \$500 a day."

Such talk worries patients. Steven Raffin, 37, a graphic artist from Somerville, Mass., has been receiving a viral IV treatment at an apartment since early this year. Then, a few weeks ago, his insurance cut costs by switching to a managed-care network, and Raffin had to choose a new IV provider. It has been generally fine,

says, but it is under pressure to keep costs down. So, his nurse from the visiting Nurse Association of Boston is now limited to one visit a week, rather than coming whenever he requests help. Raffin worries that if his condition worsens, "I won't be able to call on the services I need."

Insurers insist that home infusion companies can still assure good quality. But the square





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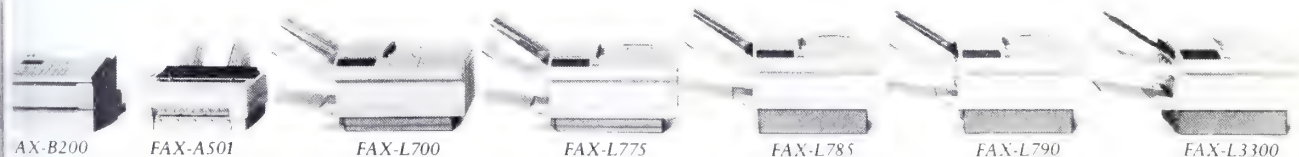
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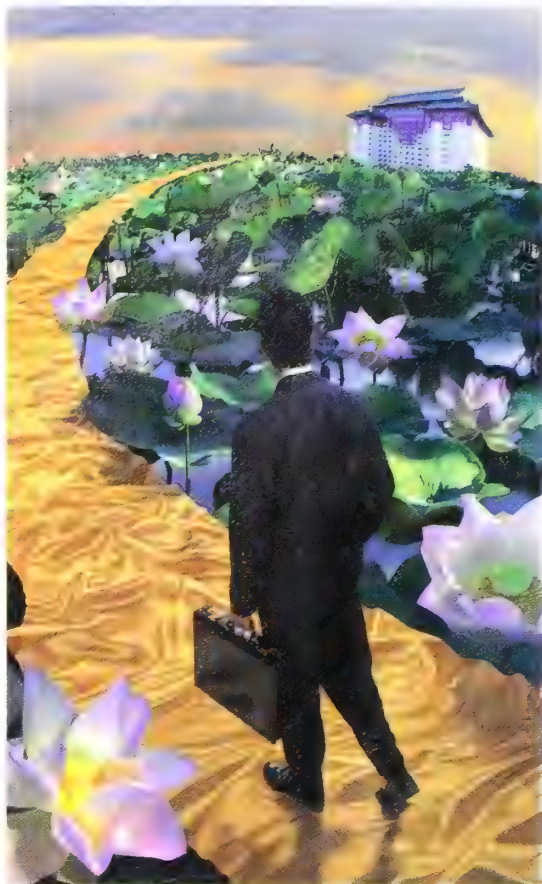
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Industries

has come very swiftly for some. In June, Atlanta-based Home Nutritional Services Inc., a 68%-owned subsidiary of Healthdyne Inc., reported a 16% decline in second-quarter earnings, to \$2.3 million. It blames the dip on its decision last year to aggressively seek discounted, managed-care business. And a shakeout is starting among smaller operators. Medical Care's Smith says 15 to 20 small companies have called him in recent months, seeking a buyer.

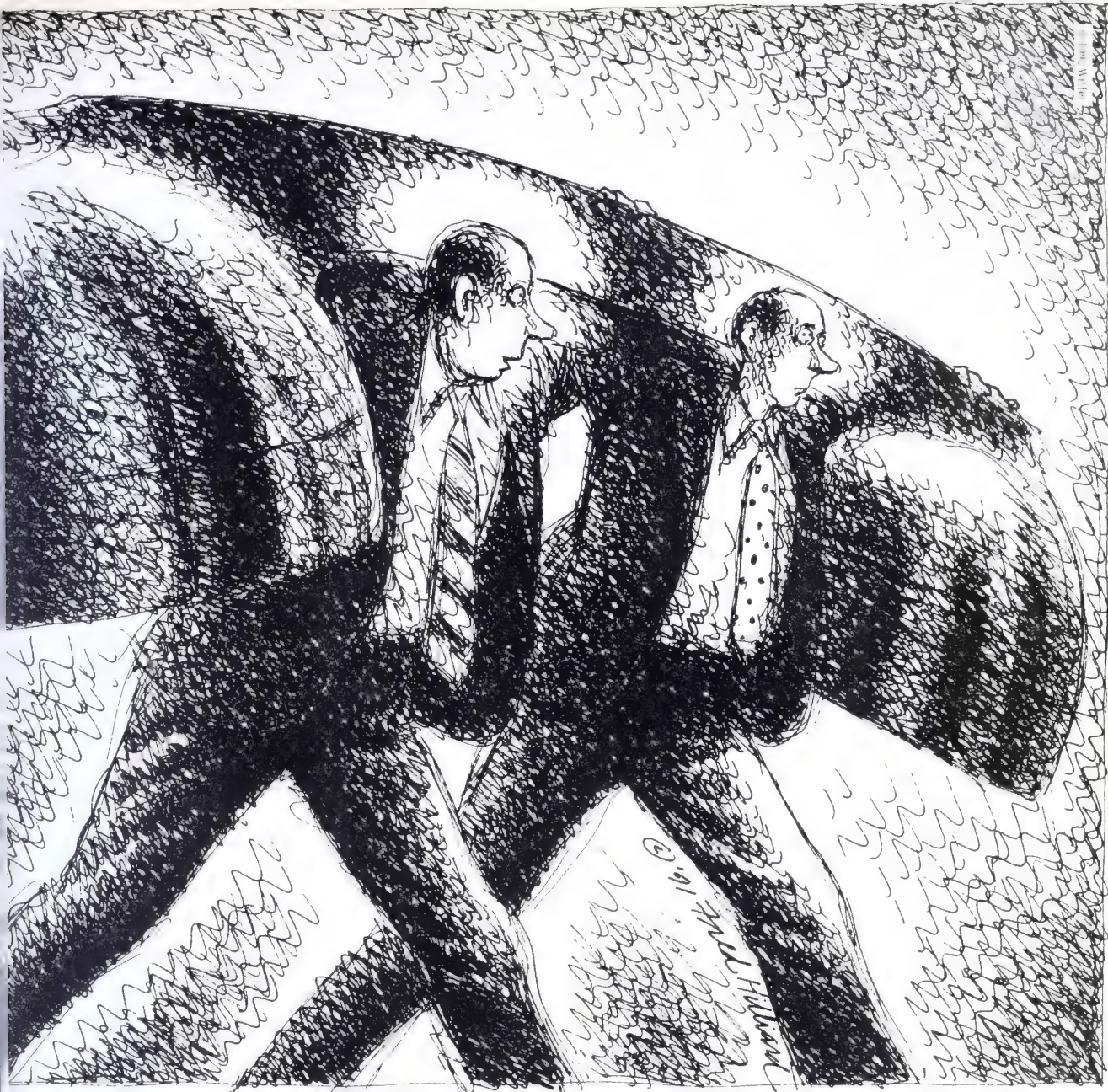
Into this maelstrom add the impact of the investigations into fees for doctors who refer patients. Many companies have used such fees as marketing tools, arguing that doctors are paid when patients are in the hospital, but not when they are treated at home. Trouble with various state and federal laws limit such practices in order to avoid conflicts of interest in referrals.

INVESTIGATION. Baxter's Caremark unit is the target of a federal probe seeking to determine if it violated laws prohibiting referral fees for Medicare and Medicaid patients. Baxter says it revised its practices for those patients in October 1991, and a spokesman says "we've always operated within the law." Still, the company could face a hefty fine.

Another major player, T² Medical of Alpharetta, Ga., disclosed in June that it was the subject of a federal grand jury investigation. T² indicated in an filing that the secret probe may involve the controversial strategy that helped fuel T²'s growth since 1987. Typically, T² helps a group of doctors set up a home infusion practice, manages it for a fee, then buys the practice mainly with T² stock once it is generating sufficient income. A source involved in the probe says the government is investigating whether T²'s tactics are illegal: "We can't offer anything in cash or kind to get referrals. That's the law." T²'s general counsel Jeffrey S. Muir counters that "we are totally in compliance with all the laws." Even so, the company's stock plunged on the disclosure of the investigation to 19 now, vs. a high of 67 3/4 in January.

Despite such travails, home infusion has a bright future—for some companies. The market seems sure to keep growing, as cost pressures force more AIDS and other patients to rely on home care. And some companies are keeping earnings up by adding new services, such as home care for bone-marrow transplant patients and premature infants. Providers that continue such innovations will prosper. But many others will fail—or become low-margin businesses. Just as hospitals are.

*By Mark Maremont in Boston,
Chuck Hawkins in Atlanta*



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MUSIC RAP: THE CASE AGAINST ALLEN GRUBMAN

Billy Joel is suing his superlawyer and exposing a tangled industry

In 1982, Allen J. Grubman was still a little-known music lawyer when he landed one of his biggest clients: Bruce Springsteen. The rocker's long-time manager, Jon Landau, recalls that one of the reasons he hired Grubman was "the word on the street was that Grubman's firm had done such a fantastic job for Billy Joel."

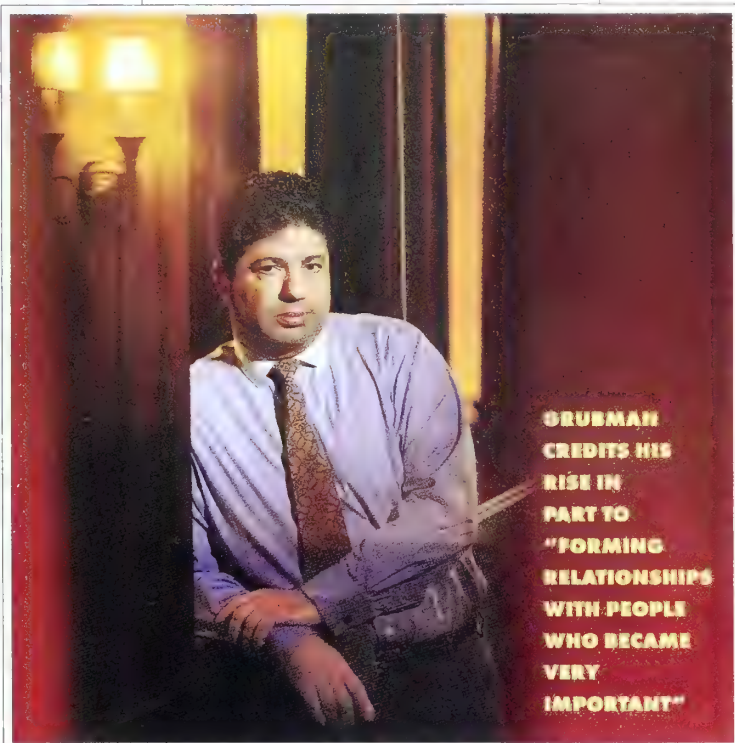
These days, Grubman, 49, is considered the most powerful lawyer in the music business, but Joel is no longer giving him his praises. He is suing Grubman for \$90 million, alleging fraud and malpractice. Grubman refuses to discuss the case, but in court papers, the lawyer blasts the suit as "contrived and libelous" and "empty" to "smear" his name. Grubman, Indursky, Lindler & Goldstein.

ALL WORLD. The case is largely about conflict of interest in the music business, where everybody knows everybody else. A clique of lawyers handles most of the deals—often while on retainer to both artists and record labels. In Grubman's case, the suit alleges that, although Joel's recording contract was with CBS Records, neither Grubman nor his firm ever "fully advised" Joel of its representation of CBS. "I asked him to sign a conflict-of-interest waiver. 'Isn't there a risk a lawyer isn't going to be as aggressive for the artist-ent because he doesn't want to offend the record company which is hiring him to do other work?'" says Joel's lawyer, Leonard M. Marks. Grubman claims the firm didn't represent CBS Records until shortly before Joel fired him.

Is there a conflict inherent in what Grubman does? "Of course there's a conflict of interest there—that's why people don't hire Allen for their attorney," industry executive Irving Azoff says bluntly. "Allen knows everyone in the industry, so

he knows who has the money and who doesn't." Grubman represented MCA acts when Azoff headed MCA Records Inc. a few years ago, but that didn't stop Azoff from hiring Grubman to represent MCA in various deals.

Grubman, whose record at Brooklyn Law School was undistinguished, recognizes that clients aren't buying his legal mind. Rather, he is renowned as a re-



GRUBMAN CREDITS HIS RISE IN PART TO "FORMING RELATIONSHIPS WITH PEOPLE WHO BECAME VERY IMPORTANT"

lentless bargainer who makes good use of his connections. "The relationships we've created allow us to do great things," says Grubman. He negotiated Michael Jackson's estimated \$30 million deal with Sony Music and orchestrated Madonna's \$60 million package with Time Warner Inc. His clients include superstars plus top record companies and their executives, such as Sony Music President Tommy Mottola. "He makes you want to be in business with him," says megaproducer David Geffen.

Grubman started out as a performer. While growing up in Brooklyn, he sang regularly on a television show in Man-

hattan. Eventually, Grubman decided on a more practical career in entertainment law. The law student worked in the mailroom at William Morris Agency and as a CBS page. After graduating in 1967, he landed a job in a music law firm.

In 1969, Grubman struck out on his own. His firm got lucky in the 1970s by signing obscure disco artists who got hot. Soon it was signing heavyweights.

Grubman credits his rise in part to his forming relationships with "people who became very important." The short list: Mottola, former CBS Records President Walter R. Yetnikoff, and Geffen.

SUCCESS STORY. Grubman's relationship with Geffen shows how the lawyer nurtures such ties while promoting his own interests. The two met 12 years ago, when Geffen was negotiating a deal for Grubman's client, Hall & Oates, to join Geffen Records. Soon, Geffen wanted

out of the deal. He asked Grubman to shop it to another label but agreed to honor the commitment if need be. Grubman signed the group with Arista Records, getting a better deal for the singers and himself. A year later, Geffen hired Grubman as his personal attorney.

If the Joel suit stands up, it could scare away clients for Grubman. A key claim is that Grubman "cast his allegiance" not with Joel, but with his former manager and brother-in-law, Frank Weber. According to the suit, in about 1988, Yetnikoff warned Grubman "something was wrong" with Joel's finances because, despite the millions CBS had paid him, Joel needed to sell his Manhattan apartment so he and his wife, model Christie Brinkley,

could build a beachfront home. Grubman allegedly refused to hire an investigator because he feared Weber would fire him. In court papers, Grubman claims the conversation never took place.

Yetnikoff is expected to testify about Grubman and the music business itself. But Yetnikoff may have an ax to grind: There are recurring rumors that Grubman helped do him in at CBS Records. Even so, until the Joel case is resolved, Grubman will be haunted by some of the same people who helped make him an extraordinary success.

By Michele Galen in New York, with Ronald Givner in Los Angeles

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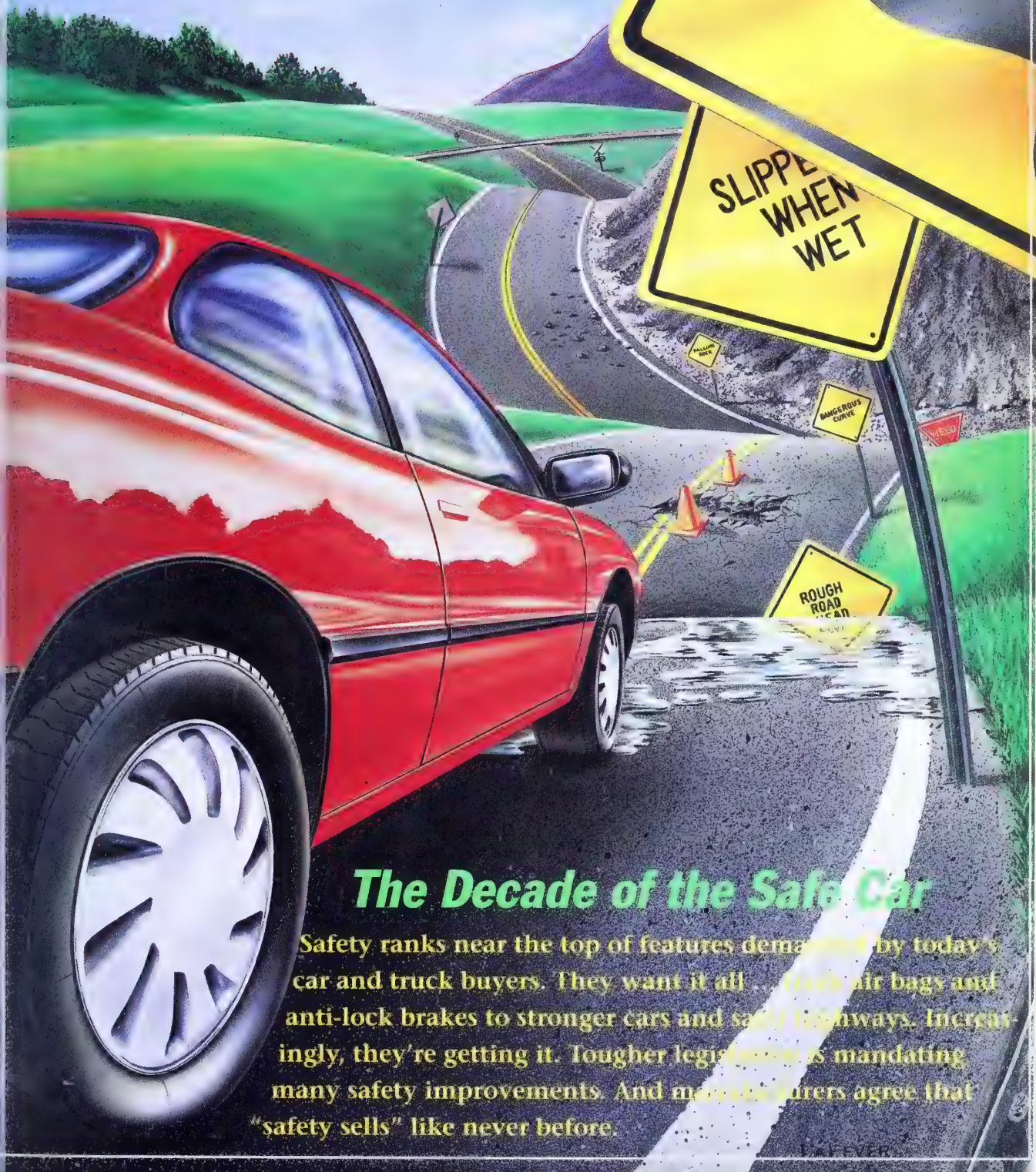
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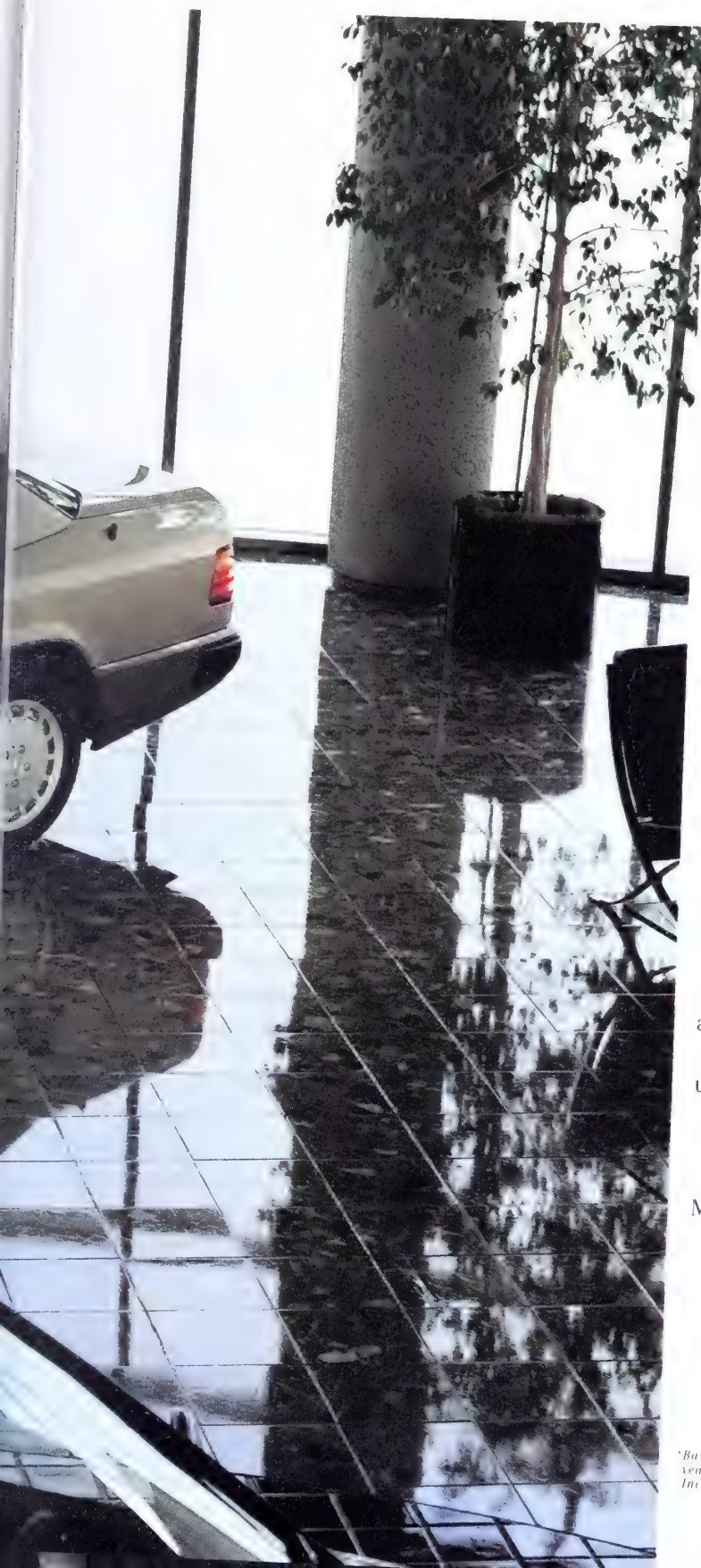
The Decade of the Safe Car

Safety ranks near the top of features demanded by today's car and truck buyers. They want it all... from air bags and anti-lock brakes to stronger cars and safer highways. Increasingly, they're getting it. Tougher legislation is mandating many safety improvements. And manufacturers agree that "safety sells" like never before.

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There's no doubt about it. New cars and trucks are safer than they've ever been since the auto age dawned more than 80 years ago. The same goes for the nation's streets and highways.

The statistics prove it. In 1950, an average of 7.6 people died in motor vehicles for every 100 million miles driven. Now the rate is about 2.0 — a record low. Experts say safety innovations could slash today's rate in half within a decade.

Is there more to be done? Certainly. Even last year's low fatality rate claimed nearly 43,500 lives in the United States. Besides, those rates vary dramatically according to who's driving what, and where. According to research by General Motors Corp., an intoxicated teenager driving a light-weight car is nearly 1,300 times more likely to be

killed than a 40-year-old belted driver in a heavy car on the freeway.

Recent federal legislation is pushing the standard adoption of more safety features, such as air bags, in all cars and trucks within six years. Some good news: The United States already leads the entire world in auto safety requirements.

Safety isn't entirely up to the vehicle, of course. The driver is the most important safety feature in any car. You can reduce your chances of trouble just by being more cautious and by paying closer attention when you drive. Try tuning up your road skills — and getting rid of some bad habits — by attending a high-performance driving school that teaches accident avoidance techniques.

The driving environment,

from road design to weather conditions, also figures into the safety equation. Use of such innovations as improved guard rails and breakaway light poles can make roads less dangerous. Under the best of circumstances though, there are so many variables affecting the driving environment that drivers still must take the streets as they come.

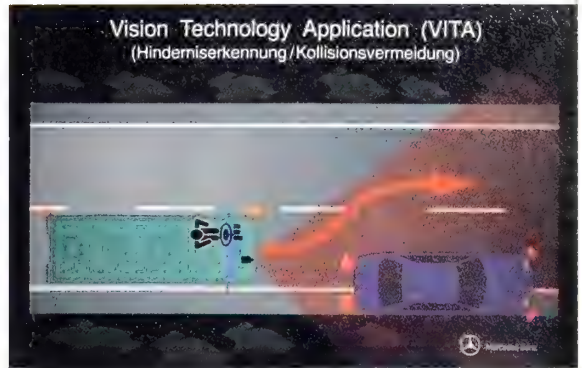
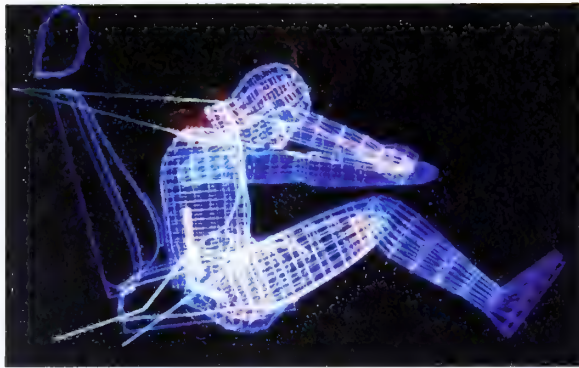
Or do they? Global research on "smart" highways will equip tomorrow's drivers with much more information about the road ahead. Eventually, your car and the highway will literally talk to each other to make driving safer and less congested.

Still, the bulk of the safety burden falls upon the vehicle itself. Today's cars and trucks are expected to make up for driving errors and the perils of streets and roadways. Fortunately, the capability of the vehicle to oblige is growing dramatically.

Much is due to quantum leaps in computing power available to automotive designers and engineers. Supercomputers permit



Education is the key to safe driving. It means understanding the safety features that help avoid accidents. It means driving safely in all types of situations.



Auto makers such as Mercedes-Benz use laboratory computers to simulate the dynamic behavior of their vehicles and the people in them during crashes. These simulations reduce cost, speed up design work, and permit safety engineers to evaluate options more quickly and put them into production faster.

Manufacturers to simulate the behavior of components and entire vehicles in a crash. And they can do it well before parts are actually built. Computer simulations aren't accurate enough to eliminate the need for crash testing with real cars. Even then, sophisticated crash dummies hooked up to computers help engineers simulate the size and type of impact human passengers. This computer-aided testing gives engineers the ability to evaluate optional designs quicker, so more crashworthy cars reach the marketplace faster. On-board electronics are also contributing to safety. Modern cars already carry about \$1,000 of electronic devices. Experts say that level could double by 2000, even heavily by the electronic requirements of such safety features as air bags, anti-lock brakes and traction control. As the cost of computing continues to drop, more exotic

safety features will come into general use. Among them are devices to enhance driver vision at night or in fog, microwave collision avoidance systems, and highways smart enough to guide drivers around trouble spots. Laboratory versions of these systems are being tested now.

This special section considers all these safety angles as it explores the 1990s — America's decade of the safe car.

WHY IS SAFETY SO POPULAR?

Maybe it seems like second nature to check the safety features of the new car you're thinking of buying. Indeed, a survey by the Insurance Institute for Highway Safety says consumers rank safety second only to quality among the things they want in a new car or van.

But America's passion for safety wasn't always so strong. Consider Ford Motor Co.'s

experience in the mid-1950s. It proudly offered seat belts, padded dashes, deep-dish steering wheels and other safety items in its cars in 1956 — and watched sales falter as General Motors pushed the styling and performance of its models. Ford marketers concluded that consumers didn't want to be reminded about the dangers of driving. Most auto makers decided that "safety doesn't sell."

Making Personal Choices

Manufacturers began to wonder if they were wrong after Ralph Nader published *Unsafe At Any Speed* in 1965. The blistering critique of the Chevrolet Corvair came just as consumers were starting to question their assumption that American institutions would always take care of them. "People," suggests Ronald S. Zarowitz, manager of car and truck safety at Chrysler Corp., "began to realize they had to

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make their own choices."

Nader's book eventually forced the Corvair out of production. It also helped galvanize the public — and Congress — into action. Until then, auto makers couldn't meet federal safety standards because there were none to meet. The only guidelines they had were suggested performance levels for various components from the Society of Automotive Engineers.

Then came the Motor Vehicle Safety Act of 1966. The sweeping law continues as the backbone for automotive safety today. Its sections cover everything from headlamp brightness and power windows to crash performance and infant restraints.

Still, Americans didn't embrace automotive safety

over-night. GM proved it in the mid-1970s. It offered air bags as an option for \$235 to \$325 in several of its large models between 1974 and 1976. Sales — about 12,000 overall — were abysmal.

Critics say GM didn't market air bags well. The public didn't yet understand what the devices were. Some observers say it also took longer than expected for buyers to warm up to a safety device designed literally to explode in their faces.

Whatever the reason, behaviorists suspected consumers like having safety features as long as they didn't have to think about them much. "When confronted with a decision to buy optional safety, people aren't as comfortable," suggests Chrysler's

Zarowitz. "But if it's built in, they'll praise the car.

The Baby Boom Factor

What has made America embrace auto safety so strongly? Experts attribute it to aging baby boomers, people born between 1946 and 1964. This huge group of 76 million consumers — one-third of the entire population — is moving through middle age now.

Observers say family responsibilities and the recognition that aging are stoking demand for safer vehicles among this group. The same interests, they say, explain the nation's growing preoccupation with health, nutrition and fitness.

No one expects our interest in safer vehicles to fade. On the contrary. It may grow as aging baby boomers produce dramatic shifts in the character of the American population. According to the U.S. Census Bureau, about one-seventh of the American population will be over age 65 by the year 2000.

"This generation of elders,



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writes Ken Dychtwald in *Age Wave*, a book on the aging of America, "is bolder, more powerful, more savvy in the marketplace, more socially outspoken, and more politically forceful than any previous generation of elders on Earth."

Auto Safety Here & Abroad

Today consumer interest in safer cars is at an all time high. Which, auto makers agree, is helping drive the pace of safety innovation throughout their industry worldwide. "Without consumer demand, we wouldn't see the level of [safety] products available," says Zarowitz. "Regulations aren't enough. The market has to want it."

Market push has propelled America into the forefront of safety worldwide. Of course all manufacturers who sell cars in the United States must meet U.S. safety standards.

But it's a different story in other world markets. "What you're seeing in Japan and Europe," observes Sherman E. Henson, manager of side impact and safety planning at Ford, "is some catch-up activities."

For 20 years the U.S. market has required cars to have protective beams built into their doors to help protect against side



A graphic depiction of the visibility offered by the cab-forward design of Chrysler's LJ sedans.

impacts. These devices are still not required in Europe or Japan. The same goes for passive restraints such as air bags.

Foreign governments are beginning to jump on the safety bandwagon. Now, says Ford's Henson, a big issue for manufacturers is coordinating standards around the globe. Europe has already developed its own test for side impacts, using different measurements of compliance. It specifies different test dummies, too.

The short-term effect is to make it tougher for manufacturers trying to sell their vehicles in several markets. One encouraging scenario: The global trend to safer cars and trucks may encourage internationally-minded

manufacturers to engineer their vehicles to meet the world's toughest safety laws — no matter whose standards they are.

DESIGNING SAFETY

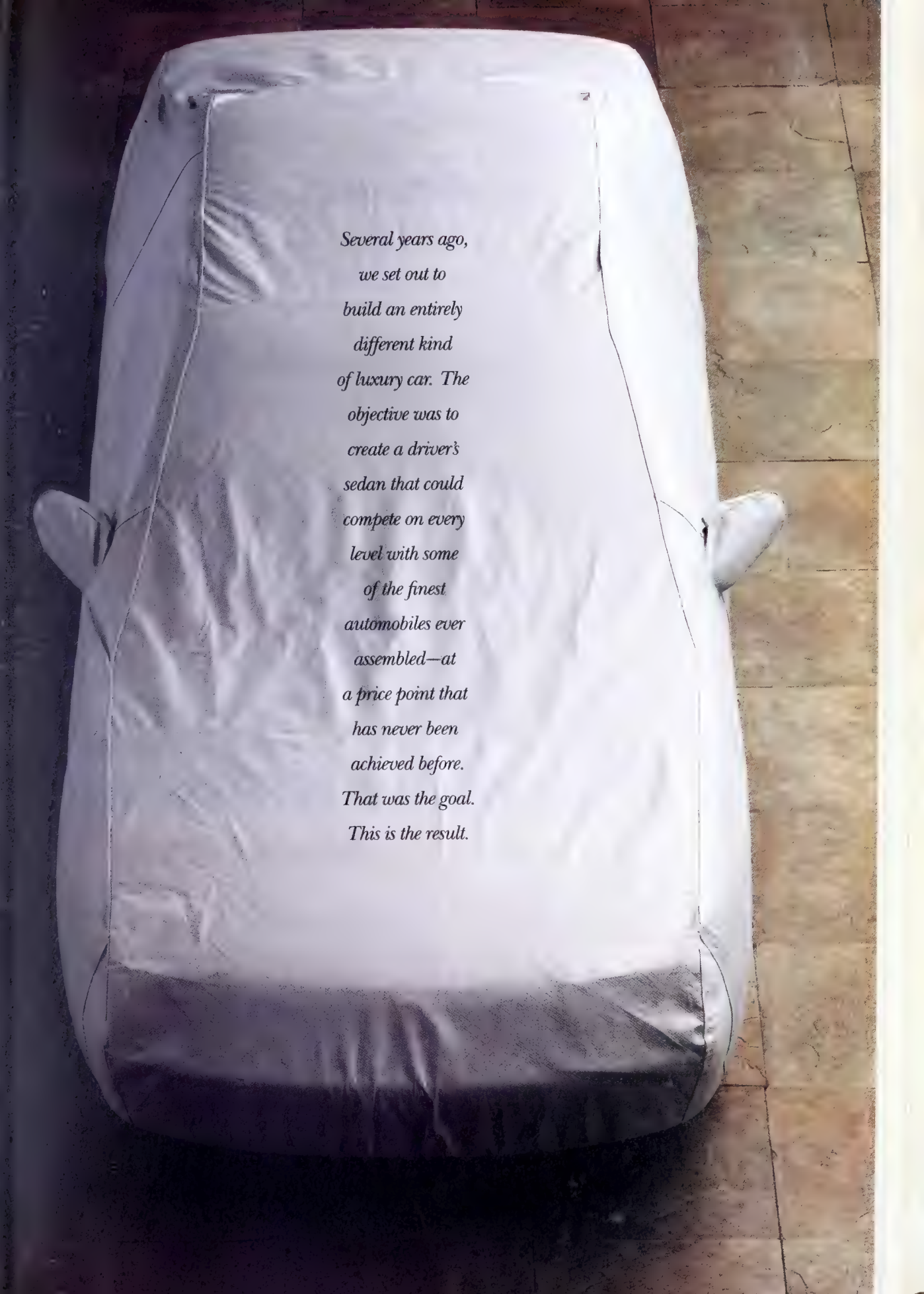
Perhaps the best way to make cars and trucks safe is to start with a "safe" design. That means a ve-

icle whose structure absorbs the energy of a crash smoothly. Its interior is fashioned to minimize injury if an occupant strikes one of its surfaces. And its tires, brakes, lights and other equipment at least meet certain minimal safety standards.

The federal government spun out its definition of safe vehicle in the Motor Vehicle Safety Act. The law set up the National Highway Traffic Safety Administration (NHTSA) and directed it to set and enforce safety standards. NHTSA has 50 motor vehicle safety standards covering hundreds of performance requirements. All vehicles must meet the federal standards that apply to them to be sold in the United States.

Dealing With Energy

Tap another car in a parking lot and your bumper soaks up the energy of impact. Strike some-

A photograph of a car completely covered by a white, wrinkled protective sheet. The car is parked on a light-colored, rectangular stone tile floor. The sheet has some dark straps or ties visible at the corners and along the sides. The lighting is soft, coming from the right, casting a slight shadow on the floor to the right of the car.

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suspension consists of MacPherson struts with optimized dive anti-lift geometry in the front and triple links in the rear that further improve driver control. In



luxury, a variety of trim levels are available so you can choose from such amenities as a custom six-speaker CD system, an automatic cabin temperature control system, sunroof,



and an optional leather trim interior—to name just a few.

Call us at 1-800-NISSAN 3, and we'll gladly tell you more about the new *Altima*. Or visit your nearest Nissan Dealer where four years of rigorous work can be summed up in one simple ten minute test-drive.

*The new Nissan
Altima*

*Starting at \$13,000.***



*It's time to expect
more from a car.™*

on, the front
ar suspensions
een"soft mount-
anti-vibration
mes.
ranslate, this
ology makes the
incredibly pow-
nd agile. Not to
on remarkably
smooth and quiet. In
fact, at 55 mph, the
Nissan Altima SE's
cabin is actually qui-
eter than the cabin
of a BMW 325i or a
Mercedes 190E 2.3*.
Speaking of the
cabin, the inside of the
Altima is graced with

all the luxury and com-
fort that the outside
suggests. Contoured,
reclining seats have
been meticulously tai-
lored to fit your form.
Large, easy-to-read
analog gauges adorn
the dash. Buttons for
the power windows
and door locks** have
been precisely placed
in the armrest for easy
access. And over forty
standard safety fea-
tures have been incor-
porated, including a
driver's side air bag,
for your protection.
If you'd like more

completion time. Braking based on stopping distance from 50-0 mph on a wet road surface. Interior quietness based on decibel level. **Standard except on XE models. R.P. for Altima XE excluding taxes, title, license, destination charges, locally required equipment and options. XE model shown with optional alloy wheels.

Finally, proof in advertising.

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THE LUXURY SEDAN ROAD REPORT

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*The New Nissan
Altima*



*It's time to expect
more from a car.™*

g at a slightly faster speed, your bumper won't be high. Why not? It's a matter of mechanical energy. Any moving object has mechanical energy. To stop the object, you have to get rid of its energy. According to the laws of everyday physics, you can't get rid of energy. Your only options are to transform or transfer it. You can use both methods. If you use the brakes and you're using friction to transform the mechanical energy of your moving car into heat. Crash into another car and you transfer mechanical energy from your car to the one you hit. Your vehicle converts some of that energy into heat as its body buckles and bends. Two factors — weight and speed — determine how much mechanical energy a moving car has. It's up to you. The weight connection is easy to understand because it's direct. If a car weighs twice as much as another, it has twice as much mechanical energy. At least that's true when both vehicles

are traveling the same speed.

Change speeds, however, and surprising things happen. In scientific terms, energy goes up with the square of speed. In plain English, a car going 10 mph has four times as much mechanical energy as it did going 5 mph. And at 50, its mechanical energy is 100 times what it was at 5 mph. No wonder bumpers alone can't handle higher speed impacts.

Stopping Slower

The problem in a crash is getting rid of all that energy in a hurry. The answer from a safety standpoint is to prolong the deceleration rate as much as possible. That reduces injury by easing the stress of a crash on the human body.

Everyone has experienced the difference between fast and slow deceleration. Bang your head on a concrete wall and you end up with a bruise. Plop your head into a pillow and you feel no discomfort at all. The difference: Your head stops instantly when

it hits the wall, but slows down more gradually when it encounters the pillow. The pillow also spreads out the force of impact over more of your head.

Engineers keep the same principle in mind when they design cars and trucks. No matter what they do, however, there isn't much time to soften the jolt of a crash.

At 30 miles per hour, the passenger compartment of a car comes to a halt in about one-tenth of a second — less than an eyeblink. If a vehicle's structure is to absorb the force of impact, it must do so within that split second. There's even less time at higher speeds.

A Safer Body

It takes only a few seconds of braking to bring a speeding car to a halt by safely transforming its mechanical energy into heat. In a crash, there's no such luxury. The same amount of mechanical energy must be processed in a fraction of a second.

The job is performed by the



Chrysler hired professional drivers for this low speed test of the effectiveness of seat belts and air bags.



structure beneath a car's skin. It is engineered specifically to soak up huge amounts of energy by bending and crumpling in a controlled way.

Engineers can calculate the crunch with computers. That speeds up the design process, but, "it's not perfect," admits Randy Edwards, manager of safety, security and noise regulations at Chrysler. And even supercomputers need hours to figure out each crash scenario. To speed up the calculation time, he says, manufacturers usually analyze their designs one structural component at a time.

What those components are, and how they behave in a crash, depends on how a car or truck is built.

Until a few decades ago, most every car consisted of a body sitting on a ladder-shaped frame. The frame served as a rigid place to mount the engine, transmission and suspension system. The body needed to be just strong enough to support itself, including the doors and roof.

This "body-on-frame" construction was popular because it helped isolate road bumps from the passenger compartment, resulting in a smoother ride. Many big luxury cars are still built this way. Trucks use the same construction, but for a different reason: The sturdy frame is well suited for carrying big

loads, and for pushing or pulling heavy weights.

Modern cars rarely have separate frames. Instead, the frame and body are combined into one "unitized" sheet metal structure. This integrated approach weighs less than body-on-frame construction, so it helps improve fuel economy.

In a crash, the heavy frame of a body-on-frame vehicle does most of the work of absorbing the energy of impact. For unitized vehicles, the entire structure can come into play by crumpling in a controlled manner.

"Cages" For Passengers

Designing a car's structure to crush is a fine way to absorb

energy in a crash. But no one wants to ride in a car whose passenger compartment might collapse along with the rest of the vehicle in a crash. Today's pressing challenge automotive manufacturers must overcome is to confine most of the crushing to fenders, hoods, engine compartments and trunks.

Mercedes-Benz invented the idea of a rigid steel "cage" surrounding the passenger compartment, complete with energy-absorbing front and rear crumple zones, in 1951. The German maker shares this survival cell concept, along with other safety patents, at no charge with other auto manufacturers.

It's extremely difficult to shield occupants against injury



The Infiniti I30 has some of today's most advanced safety features including foam-filled reinforced roof columns and structured weld-bonding in passenger cage area.

matter what happens in an accident. Engineers say the huge number of variables at work — weight, crash angle and vehicle height, to name a few primary ones — make no two accidents identical.

Thus it's all but impossible to guarantee the behavior of a car in every conceivable situation. A car designed to perform perfectly in a head-on crash might not be quite so effective in the impact is oblique. It's tricky protecting occupants from side impacts because of the less space between the bumper and outside surface of the vehicle.

& Safety

There is no inherent advantage in a body-on-frame or unitized construction. Too many other factors contribute to overall safety. One of the biggest is weight. All things being equal, a heavier vehicle will fare better in a crash than a light one, regardless of its construction. It's that matter of mechanical energy again. A new study of actual two-car accidents by the General Motors Research Laboratories confirms the unpleasant statistics. If two cars collide and one weighs half as much as the other, the driver in the lighter car is 10 times as likely to be killed as the driver in the heavier car, according to GM's analysis. The danger is about twice as high when the bigger car is only slightly heavier.

The Insurance Institute for

Highway Safety (IIHS) puts it another way in its free booklet, "Shopping for a Safer Car." The guide points out that the fatality rate for a small car is roughly twice that of a midsize car, and three times as high as a big car's. The non-profit institute notes that insurance claims for injuries are also higher for small cars than for big ones.

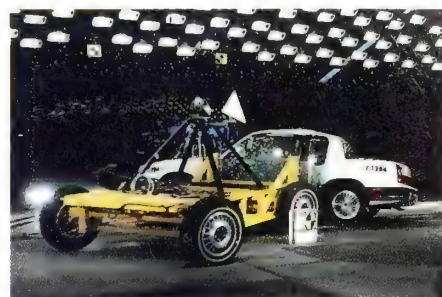
Yet weight alone is no guarantee of superior safety. That's why small cars sometimes outperform bigger models in the crash tests conducted by NHTSA.

NHTSA standards require all cars to control the energy of a head-on, 30 mph crash well enough to deliver "survivable" deceleration loads on their front-seat occupants. Compliance is determined by checking read-outs from actual crashes using instrumented dummies.

NHTSA also conducts crash tests on a few dozen vehicles at 35 mph under its New Car Assessment Program. The idea is to find how much margin of safety exists in cars beyond the federal crash requirements.

Crashing a car only 5 mph above the federal standard may not sound like much of a test. But recall that the mechanical force of a moving vehicle varies with the square of its speed. A car that crashes at 35 mph instead of 30 mph must dissipate 36% more energy.

The NHTSA tests show relative crashworthiness of various cars. But comparisons are valid only among vehicles weighing within about 500 pounds of each other.



General Motors has developed a deformable barrier that can be crashed into a stationary car at 33 mph.



Instead of selling these models GM crashed them at its Milford, Mich. proving grounds as part of its development of inflatable restraints.



Results cannot be used to compare light and heavy cars — a limitation frequently overlooked when the tests are reported in newspapers and magazines.

SAFETY EQUIPMENT

Coming up with a good structural design is basic to building a safe car. The next step is to equip it with an interior that minimizes injury if an occupant is thrown against anything during an accident.

The basic ground rules are spelled out in NHTSA's 200 series standards regarding crash protection. They include such requirements as sun visor padding, head restraints, strong seat anchors, and steering columns that collapse in a crash.

Safety experts divide safety items into two broad categories. Passive features work automatically and require no action by occupants. This category includes such items as vehicle structure, interior design and air bags. Passive safety systems usually come into play only when an accident occurs.

Active safety features are those that contribute when they are deliberately chosen by drivers or passengers. This category includes everything from anti-lock brakes and seat belts to windshield wipers and window defog-

gers. Active safety items are generally intended to help drivers avoid an accident in the first place.

How much safety should be automatic? That's a point experts have debated for years. Some say safety is mostly up to the driver. Others contend the primary



The adjustable D ring on Ford's Crown Victoria makes seat belts more comfortable hence more likely to be used.

responsibility lies with the vehicle itself.

Certainly there's ample room for improvement on both fronts. But most safety activities focus on the car's ability to protect occupants automatically.

Safety Belts

If there's one thing safety experts agree upon, it's that lap and shoulder belts are the single most important piece of safety

equipment in a car or truck.

Belts keep occupants in the seats and away from potential impact with the interior of the vehicles. They're effective in frontal, rear, side, rollover and combination crashes.

Belts only work when occupants elect to buckle up. Today only 59% of the population does so, according to NHTSA. The agency is part of a massive nationwide effort to reach a 90% belt usage rate.

Even 59% is a big improvement over the early 1970s when belts were first mandated by government. In those days lap and shoulder belts often used separate latches. Since most cars didn't have retractors, you had to cinch them up manually each time you used them. Simpler three-point belts with inertia reels have been federally mandated equipment since 1973. More recent rulings have spawned a variety of motorized and passive belt systems.

There isn't much excuse for ignoring safety belts today. They still don't fit everyone perfectly, but enormous strides are being made in comfort and convenience. Adjustable shoulder belt height is available on many cars now. Some manufacturers are even building belts into the car's structure, so they always fit the same no matter how you move the seat.



Roberta J. Nichols, Ph.D.
Ford Environmental Engineer

"Environmental responsibility fuels our research."



At Ford Motor Company, responsibility for the environment goes hand in hand with building quality cars and trucks. That's why we're already building vehicles that meet California's strict emission standards for the late 90's.* It's also why we're the first U.S. manufacturer to build a car with CFC-free air conditioning and why we'll soon have a fleet of electric vehicles on the road. At Ford Motor Company, we take our responsibilities seriously.



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Up close and together, we can save lives.

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Always wear your seat belt. Ford Motor Company collision repair parts.



The Boom in Air Bags

No matter how convenient safety belts are, some people just won't use them. So safety proponents have pushed hard for automatic air bags since the first experimental units were rolled out for cars more than 20 years ago.

Installation rates for air bags has soared in the past few years. During the 1992 model year, just over half of all cars sold in the United States came with driver-side air bags. In a recent survey for *Woman's Day* magazine, 84% of women contacted said air bags were their most-wanted safety feature. Other consumer research shows similar results. And manufacturers report that the optional passenger side air bags they offer

on many models are frequently sold out.

Consumers are clamoring for air bags so much, in fact, that auto makers may finish offering them in their vehicles ahead of the federal government's mandated schedule. Last year's Intermodal Surface Transportation Efficiency Act included a provision requiring NHTSA to specifically require air bags in all cars, vans, pickups and sport utility vehicles by 1998. Until then, NHTSA only specified "passive restraints," a category which includes motorized and door-mounted belt systems.

The new air bag regulations call for 95% of all passenger cars built after Sept. 1, 1996 to come with both driver and front passenger air bags. Compliance

must reach 100% a year later. Dual air bags will be required 80% of new light-duty trucks, vans and sport utility vehicles built after Sept. 1, 1997, and in all such vehicles a year later.

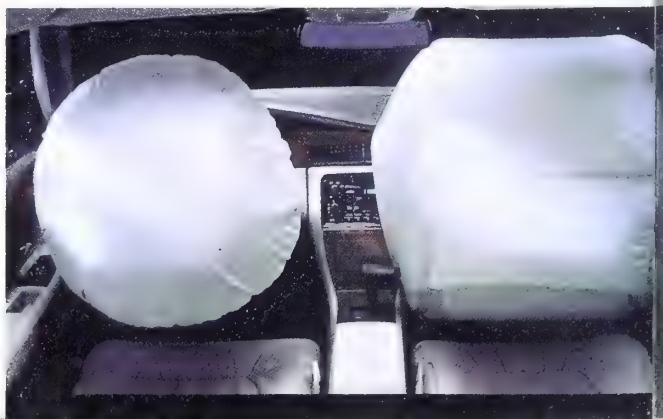
The cost of switching to air bags should be reduced by a cheaper inflator system developed by Allied-Signal's Bendix Safety Restraints Group. The unit relies on inert argon gas to deploy the bag, rather than the all-solid sodium-azide propellant used presently. Bendix says the new inflator will begin to appear in new domestic and foreign cars in 1994.

How Do Air Bags Work?

The idea behind air bags is simple enough. They're built to fo



Air bags work best in conjunction with safety belts. They automatically inflate in a crash to form a cushion between occupants and a vehicle interior. Then they instantly deflate so the driver can maintain control and continue to steer if necessary.



shion between you and the
le of your car before you hit
hing. In practice, that means
ning-fast action.

gets back to physics again.
ng a crash, your car stops
you keep moving forward
t you hit something. Since
violence of a crash is over in
t one-tenth of a second,
e isn't much time for an air
to pop into place. Current
ms do so in about 1/25th of
ond.

etting ready for your arrival
ly half an air bag's job,
gh. If the bag stayed fully
ted, you'd bounce off. To
rb the energy of your
act, the bag deflates as you
e it. In a typical crash, the
re process of deployment
deflation takes about half a
nd.

uture air bag systems will be
rter. They'll match their
tion speed to your size and
ht. And if no one is sitting

in the passenger seat, they'll
know not to inflate at all.

The Propellant Question

When air bags first came into
widespread use a few years ago,
some people wondered if the
propellants that inflate them
were dangerous to passengers.

Not so, says the U.S.
Department of Transportation.
Air bags are inflated with nitro-
gen, the same gas that makes up
78% of the air we breathe.

True, the nitrogen is created
by burning a small amount of
sodium azide, a toxic but non-
explosive chemical. But the
chemical is sealed inside a cap-
sule within the air bag module.
Once installed, it is considered
less dangerous to occupants than
the gasoline in a vehicle's fuel
tank.

When an airbag is deployed, a
filter system is designed to cap-
ture any combustion byproducts.

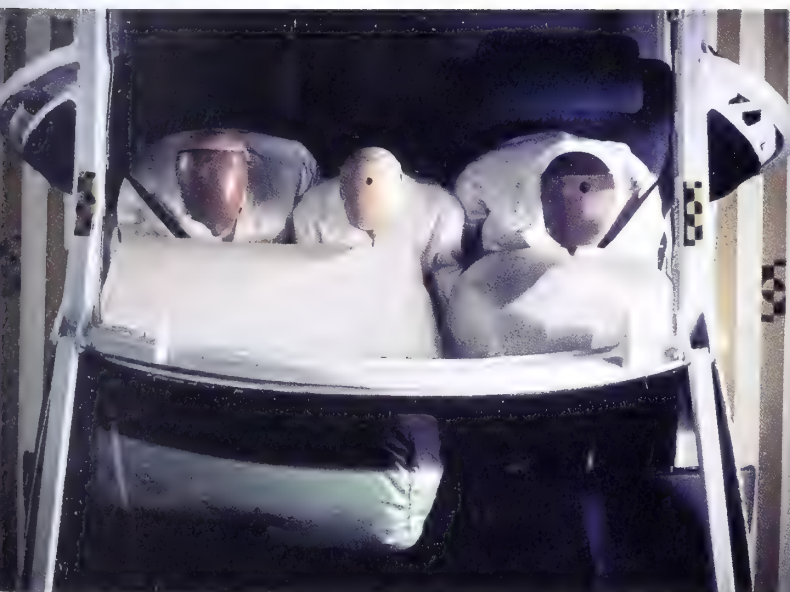
Bags & Belts

If you think air bags mean you
can forget about buckling up,
think again. Air bags alone are
no safety cure-all, even if they're
built into every vehicle on the
road.

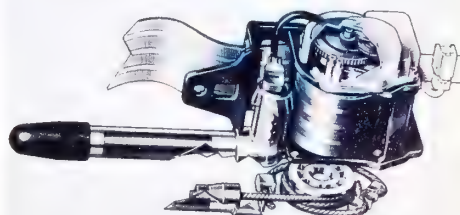
For one thing, air bags aren't
effective in side, rear or rollover
accidents. Auto makers are study-
ing a new breed of air bags that
would deploy between the doors
and passengers in a crash.

Engineering such cushions is
especially difficult, however.
There's less room between an
occupant and the door, so the
bags would have to inflate faster.
Yet the system should somehow
avoid injuring a passenger who
might be leaning against the
door itself at the moment of
impact.

Even with air bags all around,
you can't get the maximum safe-
ty benefit unless you buckle up
anyway. Seat belts keep you in



Left: In conjunction with the safety belt system, Cadillac's Fleetwood has air bags that provide additional protection for up to three front-seat passengers. Right: Infiniti's sophisticated emergency pre-tensioner system automatically tightens both front seat belts at a specified level of impact energy for added passenger safety.



THE ONLY CAR THAT CAN TRULY
CLAIM TO BE "JUST LIKE A TAURUS."



FORD TAURUS

There are imitators. And then there's the original. Ford Taurus. From the start, it's been a step ahead of its competition. And that's just where it's stayed, thanks to the more than 200

improvements we've made since it was introduced. Like its sleeker design and smooth handling. And for safety's sake, we've given Taurus available anti-lock brakes. Plus the



ity of a standard driver
optional right-front
nger air bag supplemental
int system. Air bags, in
unction with properly
safety belts, are one of

the most effective restraint
systems available.

Ford Taurus. There simply
is no substitute.

Buckle up — together we can save lives.

**HAVE YOU DRIVEN
A FORD LATELY?**





proper position so you'll gain the most cushioning from the bags in a crash. Studies by GM estimate that properly worn lap and shoulder belts are twice as effective as air bags used without the belt system.

Belts also help protect you in a multiple collision, since air bags can inflate only once. Such manufacturers as Acura, Audi, BMW, Infiniti, Lexus, Mercedes-Benz, Saab and Volvo use crash sensors to trigger a mechanism that cinches lap and shoulder belts tighter in a crash. These devices can take in up to four inches of slack in only one one-hundredths of a second.

Child Safety

Children present a special challenge for safety engineers. Air bags can protect them as well as adults. But if small children are

scrambling around loose in a car, they may be out of position when an air bag is deployed.

At best, they'll get only part of the protection provided by the system. At worst, the air bag could do as much harm as good by



Occupant safety was paramount through every stage of Chrysler's LH development, from the crash worthiness of the vehicle body to the industry's first car integrated child seat.

suddenly pushing a child away from the dashboard. Children can be buckled into forward-facing child seats in front of an air bag system. But infants in rear-facing safety seats should be buckled into the back seat.

No, you can't protect a baby by holding it in your arms in the car. During a crash at just 25 mph, a 12-lb. baby becomes a 240-lb. force, according to General Motors. GM was an early innovator in child safety seat design.

Last fall Chrysler Corp. scored

a safety marketing coup by offering built-in child seats in its popular minivans. The award-winning design folds out of a conventional rear seat back when needed, and vanishes back into the seat to accommodate adult passengers.

More than 25% of all Chrysler minivans sold are being ordered with the twin safety seat option. Starting in November, Chrysler customers can also get the child seat in a car. Chrysler is offering a single built-in child seat as optional equipment in its new line of "LH" family sedans.

Car rental firms, which normally keep a supply of child seats for use on an as-needed basis, are particularly interested. Last year, Avis and Budget ordered the child seats in their entire fleets of Chrysler minivans.

Chrysler predicts at least 13% of Chrysler Concorde, Dodge Intrepid and Eagle Vision buyers will opt for the seat (price: about \$100). The single seat will replace a center-mounted armrest in the middle position of the rear seat. The child seat may also appear in other Chrysler vehicles in the future.

DOT's Safety Car Project

What would happen if you combined every possible crash protection feature in one car? Would the U.S. Dept. of Transportation



the question 22 years ago
led up with a handful of
safe — but not very practi-
cars that cost more than
million each to develop.
DOT specified that the vehi-
meet several tough safety
Perhaps the most dra-
protecting unbelted pas-
sengers in a barrier crash at 50
Bumpers were to absorb
energy of a barrier crash up
mph without damaging the
le. And the interiors of the
cars had to be safe enough to
nt serious injury to occu-
in various crashes up to 30
— without deploying its air
Only at higher speeds
d the air cushions be used.
e resulting test cars con-
d a num-

cushioning in a crash. Another
contractor experimented with
foam-filled body panels to help
soak up impact energy. The test
vehicles used both front- and
rear-engine designs.

The safety cars proved that
safer vehicles were possible. They
also generated a wealth of data
about safety equipment and
crash performance. But the pro-
ject demonstrated the difficulties
involved in balancing safety
with comfort and cost. The cars
weighed at least two tons, pro-
vided poor fuel economy, and
didn't meet today's emission
standards.

DOT specified a number of
limits for crash loads to dummies
in the test cars. It said force to a

passenger's head could reach 80
g's (80 times the normal weight
of the head), and up to 100 g's to
the chest and pelvis for no more
than 3 thousandths of a second.

All contractors had trouble
meeting those goals. More
importantly, no one knew for
certain how closely those limits
related to actual human injury.
Still, the project was an impor-
tant impetus in the automotive
safety effort.

Safety Versus Convenience

The DOT safety car project also
left unanswered the question of
how much inconvenience con-
sumers would accept for the sake
of safety. The consensus today:

not much.

Just look at a
modern Indy-
style race car.
It's so safe that
a driver can
expect to walk
away from a
crash at more
than 150 mph
without serious
injury. But its
safety features
are hardly fea-
sible for the
family sedan.

For one
thing, race dri-
vers are virtual-
ly immobilized



GM's newly designed test dummy more adequately simulates a passenger's response to side-impact crashes.

Introducing The Family Tire



Marriage is in. Babies are being born. People are discovering the simple joys of family life. And we're designing tires with this in mind. Passenger performance and light truck tires. Innovations like our Gen Seal puncture sealant tire. All engineered specifically to



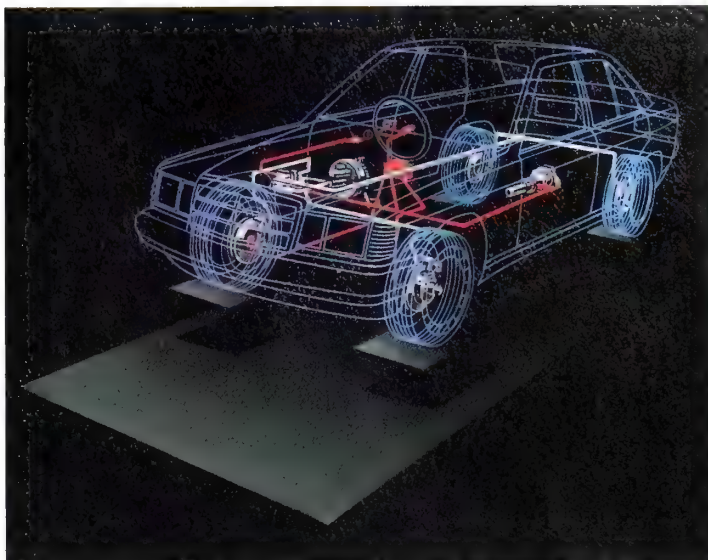
take care of the people who matter most. Because isn't that what life's all about? Just call 1-800-662-0448, extension 203, to find out more about The Family Tire and the location of your nearest General Tire Dealer.

GENERAL TIRE



x belts that can only be
erly fastened with the aid of
per. Racers are also shoe-
ed into a form-fitting,
r-strong seat in a cockpit
for one. They're surrounded
safety cage built solely to
ect them, with little regard
ow difficult it becomes to
into and out of the car.
wo more differences: Race
ers are in top physical condi-
And they always wear crash
nets — a highly effective
y item that most consumers
t yet ready to adopt.

Left: This dummy has a "deformable" face to measure the results of impact with a car's interior. Right: A diagram of the sophisticated anti-lock braking system used by Mercedes-Benz.



Word About Dummies

There aren't many volunteers
for automotive crash testing. So
manufacturers must rely on
dummies to let them know what
happens in an accident.
Unfortunately, crash dummies are
getting better at it.
Several dummy designs were
available when Washington
began mandating automotive
safety in 1966. All had shortcom-
ings. General Motors was an
early leader in combining the
features of several into a
standard dummy that the whole
industry could use to mea-
sure its progress.
The newly created industry
group for the Big Three domestic
auto makers, the Occupant

Safety Research Consortium, is
trying to sort out a variety of
safety issues, including design
standards for next generation
crash dummies. Debate contin-
ues over design criteria. "In the
end," says Henson at Ford, "the
dummies can't be very different
if they accurately simulate
human beings."

Today's test dummies can be
wired with dozens of channels to
check acceleration and decelera-
tion rates in various parts of their
bodies. Some are also equipped
with a special "skin" that helps
designers reduce injuries caused
by a vehicle's interior surfaces.

Prices for a base model crash
dummy start at around \$35,000
these days. But fully loaded mod-
els can run as much as \$80,000.
Even the most sophisticated
crash dummies still cannot
mimic the behavior of the
human body perfectly. But their
performance continues to
improve as auto makers increase
their levels of testing.

GETTING ACTIVE

Auto safety isn't limited to
systems useful only after it's too
late to avoid a crash, of course.
Plenty of features are coming
into widespread use that help
motorists sidestep accidents
before they occur. That's impor-
tant. According to GM research,
drivers use crash avoidance sys-
tems 99 times as often as crash
protection systems.

Crash avoidance technology
is getting a big boost from elec-
tronics. As the cost of on-board
computing power drops, manu-
facturers can economically equip
cars with all sorts of electronic
safety systems that would have
cost thousands of dollars a
decade ago.

Anti-lock Brakes

Jam on the brakes of a conven-
tional car on a slippery road and
you're headed for trouble. Once

“I want a car that feels like a reinforced steel security blanket.”

Is there such a thing as a *safe car*? After all, accidents will happen. Our theory: They should happen less often. They should cause fewer injuries. To that end, we offer the accident-avoidance benefits of anti-lock brakes on more cars and trucks than anyone. The added protection of driver-side air bags on more vehicles than anyone. We surround our drivers and passengers with steel roof supports, steel door beams and other energy-absorbing surfaces. It's a design philosophy based on a Total Safety System™ of crash protection, accident avoidance and enhanced driver control.

Are you looking for a safer car or truck? The kind parents would *almost not worry* about their children driving?

Come see the changes we've made.

General Motors



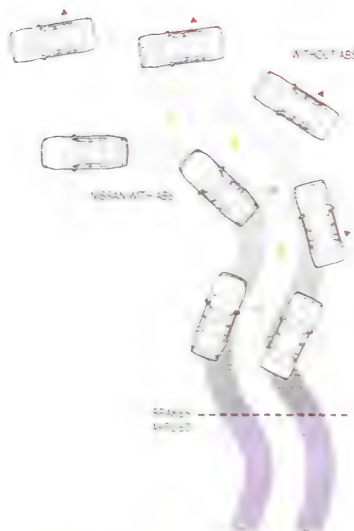


the front wheels lock up, you can't steer them. Your vehicle plows straight for the object you were trying to avoid no matter how much you twist the steering wheel. That wouldn't happen if your car was equipped with an anti-lock brake system (ABS). About 30% of new cars sold in the United States come with this valuable system.

ABS prevents your wheels from locking up during heavy braking, even if two are on ice and two are on dry pavement. You get maximum possible stopping power. At the same time, all wheels keep rolling enough to give you the control to steer around trouble.

Safe drivers know they can "pump" their brakes on a slippery road to slow down without skidding. ABS does the same thing, but much faster. It also works on each wheel independently to help reduce stopping distances.

The system includes a high-speed computer and sensors at each wheel. If one wheel stops too soon during braking, the computer quickly eases off just enough brake pressure to that wheel to allow it to roll again. Then it reapplies more pressure and checks wheel rotation again. The cycle may be repeated up to 200 times per second — much faster than a human foot could move.



Above: Anti-lock brakes allow drivers to steer even when they brake hard. Below: The Cadillac Allante® has a traction control system that helps prevent wheel spin during acceleration. The system reduces engine power and can even apply braking if necessary. Traction control works with the ABS system to monitor wheel speed every ten to fifteen milliseconds.



ABS isn't required by the federal government as standard equipment in cars. It may not need to be. Installation rates are already soaring now that system costs are dropping.

Just a few years ago, ABS was an option costing \$1,200 or more. GM's new ABS-VI system costs only a few hundred dollars thanks to simpler components. GM offered ABS in 49 of its 50 car and light-duty truck lines during the 1992 model year. Chrysler is already making ABS available on 85% of its vehicles. Ford reports similar rates.

Traction Control

ABS looks for wheels that are turning too slowly during braking. Traction control checks

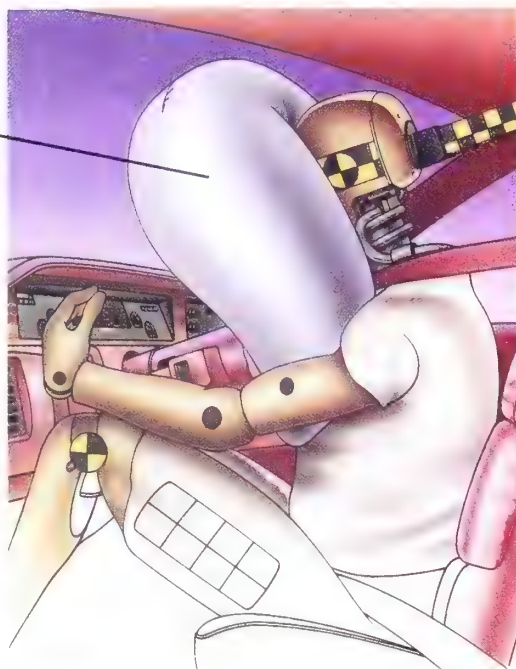
LOOKING DOWN THE ROAD TOWARD CREASED SAFETY, YOU'LL BE SEEING A LOT OF US.

Electronics Steering Wheel Mounted Accessory allow you to keep your hands on the wheel while just the radio: on/off, station seek and volume. Some versions also let you adjust the heating and air conditioning.



Used with safety belts, air bags are helping save lives. And Delco Electronics makes the sophisticated electronics designed to check out the air bag system every time you start your car and constantly monitor various system functions as you drive.

Some insurance companies offer premium discounts on cars equipped with safety features like anti-lock brakes and air bags. Check with your insurer to see if your policy offers such discounts.



Delco Electronics Head-Up Display presentation, your speed, turn signals and warning indicators are projected in front of you. So that whatever driving conditions, you can keep your eyes safely on the road.



Anti-lock brakes showed the world how much of a contribution electronics could make to automotive safety, and that was just beginning. Looking further down the road, we see advanced safety-related and ease-of-driving features becoming a clear priority for new-car buyers.

We make the Electronic Controllers that are the "brains" behind anti-lock brakes. And we play a leading role in bringing you the other features shown. With all these options and more, we're doing our best to bring you driving comfort and peace of mind.

Delco Electronics: driving the world in automotive technology.

Delco Electronics

WORLD LEADER IN AUTOMOTIVE ELECTRONICS™

Subsidiary of GM Hughes Electronics

It's who we are.



drive wheels that are turning too fast during acceleration. Both systems work well in tandem, since they can share the same wheel sensors. Each uses its own computer, however.

Some traction control systems reduce wheel spin by applying braking force to the offending wheel. Others reduce engine power by throttling back the engine, altering the ignition timing or even cutting out a few cylinders momentarily. Still others combine both approaches. Whatever the method, traction control prevents you from spinning your wheels — even if you floor it on a snowy road.

Traction control systems are showing up first on luxury models such as Cadillac Allanté, Lexus SC400 and Crown Victoria. But as ABS becomes more common, experts say traction control will soon follow. Some observers expect both systems to be standard in virtually all new cars and light-duty trucks sold in the United States by the year 2000.

Tires

Perhaps you don't think of tires as a safety item, but they are. They are, after all, your car's only contact with the ground. Your



ability to start, stop and turn depends directly upon those hand-sized areas where the rubber meets the road.

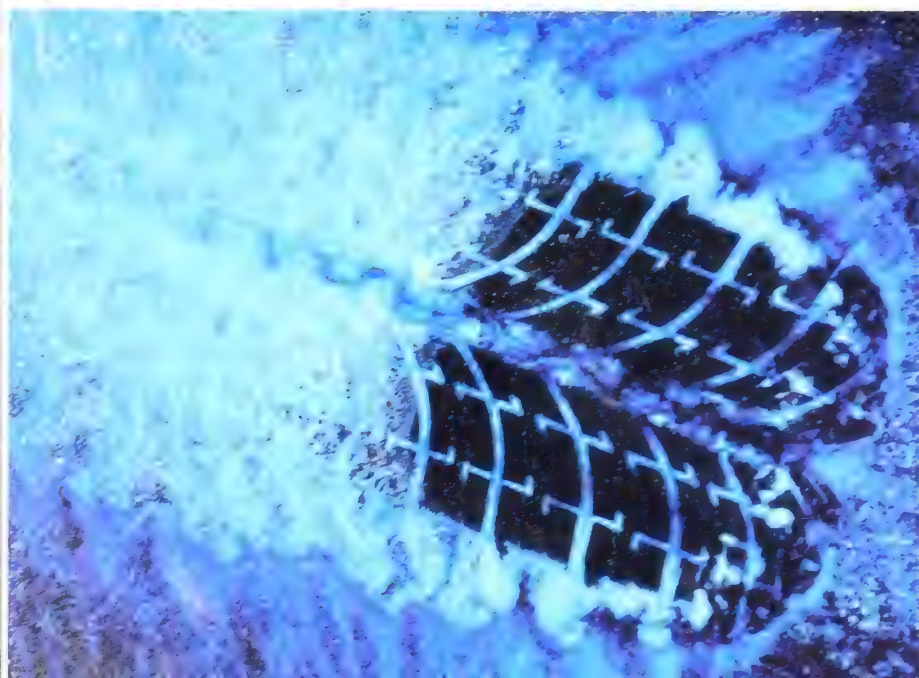
The question is, how much rubber? You could increase a car's grip by shodding it with wider, no-tread tires. Add a rain, though, and those "slick" tires would soon be riding on a slippery film of water — aquaplaning — instead of biting through to the pavement. You'd slip like you were on ice.

Putting treads on tires addresses that problem. The channels give water and snow a place to go so the rest of the tire can grip the road.

Goodyear has taken the channel concept to a new level with its new all-season Aquatred tire. The unusual design looks like two motorcycle tires placed wall-to-wall and partially merged together. Goodyear says the resulting large center groove delivers superior wet-weather traction without reducing grip under dry conditions.

Designing a tire that works even when flat is another breakthrough.

Above right & below: Goodyear's Aquatred tire. This new tire uses a huge center channel to pump water away from the tread. It improves wet weather handling by reducing "aquaplaning," a dangerous effect in which a tire rides over water instead of cutting through it.



for tire makers. Several have named "run-flat" tires, but all require a special rim. The new Bridgestone, is making its performance Run-Flat tire commercially available only on a special version of the Corvette sports car.

The Bridgestone wheel, tire and low-pressure sensing system expected to cost about \$5,000. Bridgestone says it will begin marketing a considerably cheaper Run-Flat tire that fits a normal rim in 1994.

Run-flat tires have built-in air supports on the side to stabilize the tire and prevent overheating. Such tires are most successful in trucks, but low profile tires are used on sports cars.

Obstacle Detection

If you're a parent, you may come close to backing your family car over your child's tricycle. That shouldn't be such a problem if your car is equipped with an obstacle detection device. Several companies are experimenting with such systems. Delco Electronics



is developing a detector for school buses, based on technology developed for the military by Hughes Aircraft Co. The automatic system, called FOREWARN, uses up to four microwave sensors to check for mov-

ing objects in front of, to the side and under a bus when it is stopped. It flashes a warning light and beeps when an object is detected.

"We picked microwave technology because of its ability to operate in all climate extremes, and because we can definitely make it affordable," says Jerry Jackson, chief engineer at Delco Electronics' Body & Chassis Unit. "There are a lot of commercial applications."

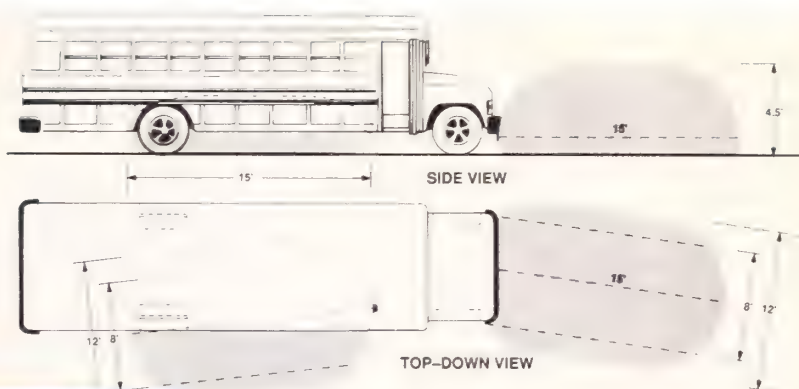
Another likely application is as a lane-changing aid. The technology could help fill in a

blind spot when an object is present. The demonstration unit could help drivers parallel park, since it indicates how far away objects are from the rear bumper.

Building Safer Trucks

Car safety isn't limited to cars anymore. Nearly half the new vehicles sold are vans and light-duty pickups. And most of those vehicles are being used just like cars are. But trucks aren't yet required to meet auto safety standards.

Does that make pickups and



Delco Electronics is developing a detector for school buses called FOREWARN to alert the driver to moving objects near the bus.

car or truck's "blind spot" so you don't

accidentally sideswipe another car on the freeway.

Delco Electronics has also demonstrated an obstacle detection system for passenger vans. It switches on when the vehicle backs up to warn the driver if an

object is present. The demonstration unit could help drivers parallel park, since it indicates how far away objects are from the rear bumper.

vans less safe than cars? Not according to the statistics. Barry Felrice, NHTSA's associate administrator for rulemaking, points out that the fatality rate for occupants in light-duty trucks and vans is identical to that of cars.

"Trucks tend to be bigger and heavier, and higher off the ground," says Felrice. "Those things all add to their safety.

**“Great. Now
a bigger**



Why I can get boat."



understands the benefits of power more than a truck company. An attitude capably put into
in our Safari XT – a midsize van endowed with the most powerful standard engine in its class.
g you to comfortably tow up to 5,500 pounds, the best in its class.*

strengths further refined with the technology of standard 4-wheel anti-lock braking safety. And
weather security of available all-wheel drive. Why not call 1-800-GMC-TRUCK (1-800-462-8782)
advantages of our 90 years of experience. It could be your first step to bigger and better things.

ly equipped including trailer passengers, cargo and equipment.

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Buckle up, America!



THE STRENGTH OF EXPERIENCE



Insurance data show injury claims are lowest for passenger vans than any other type of vehicle."

Still, NHTSA has acted recently to close the gap between car and truck standards. Thus light-duty trucks will be required to meet the same roof crush standards as cars (most do already), carry the now-familiar center mount stop lamp found on new cars, and build side impact beams into their doors. Air bags are also being phased in.

Applying car safety standards to trucks is tougher than it may seem. Manufacturers have complained that side impact beams in truck doors will be too high to do much good in crashes, since trucks sit higher than cars do. Other truck makers question the value of high-mounted stop lamps for the same reason.

Engineering an automotive air bag to work in a truck is another challenge. Cars are deliberately designed to crumple in a crash. Trucks must be much more rigid so they can push, pull and carry heavy loads.

But the stiffer construction of a truck translates into more abrupt deceleration in a crash. Engineers at GMC Truck say air bags in trucks must deploy about 30% faster than they do in cars to provide the proper protection for occupants.

On the other hand, air bags

for trucks must be insensitive to what manufacturers call the "snow plow" problem. They must respond to a crash instantly. Yet they must not go off accidentally when a truck equipped with a plow rams into a snow bank. Likewise, air bags for off-road trucks must be able to tell the difference between a crash and the jolts of a boulder-strewn trail.

Overcoming such problems isn't impossible, just tricky. Chrysler rolled out the first off-road vehicle equipped with an air bag, its Jeep Grand Cherokee, in April.

Crusading for Better Drivers

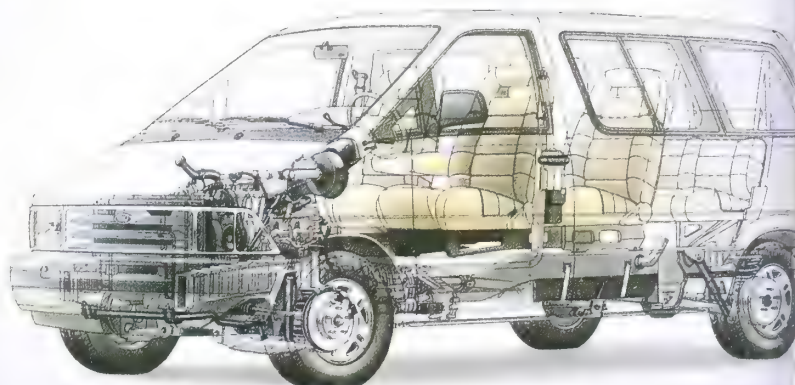
In an ideal world, we'd all drive so perfectly that most accidents wouldn't happen. As is, human

error — usually inattention — responsible for triggering most accident situations. Even then, we could avoid many crashes if our driving skills were sharper.

To put it another way, safe driving is partly a state of mind. Now, that state is improving. Safety experts point out that drunk driving, generally considered a factor in half of all traffic accidents, is far less socially acceptable than it was a decade ago. Groups such as Mothers Against Drunk Driving (MADD) are working hard to raise the recognition level about the dangers of drunk driving. The efforts aim not just at drivers but at the judicial system as well.

Employers have their own compelling reasons to promote safer driving. For one thing, accidents are a huge drain on

A driver side air bag is standard in Ford's 1993 Aerostar van (shown), Econoline Van and Club Wagon. Driver side air bags will be available in all Ford light trucks by 1994.



many productivity. s the primary mes- of a group in ington, DC, called ork of Employers raffic Safety, or . The coalition is g to promote safer ng with various lace initiatives. TS offers compel- statistics to con- way employers. s motor vehicle ents cost business billion in lost time annually. The ge workers compensation or each on-the-job motor le-related fatality is 500. The average bill for injury in a vehicle accident 400. tting employees to buckle n have a big impact. NETS, e members include several ance companies, says the ge hospital bill for someone wasn't wearing a safety belt rash is nearly \$2,500. For d accident victims, the cost s than \$800.

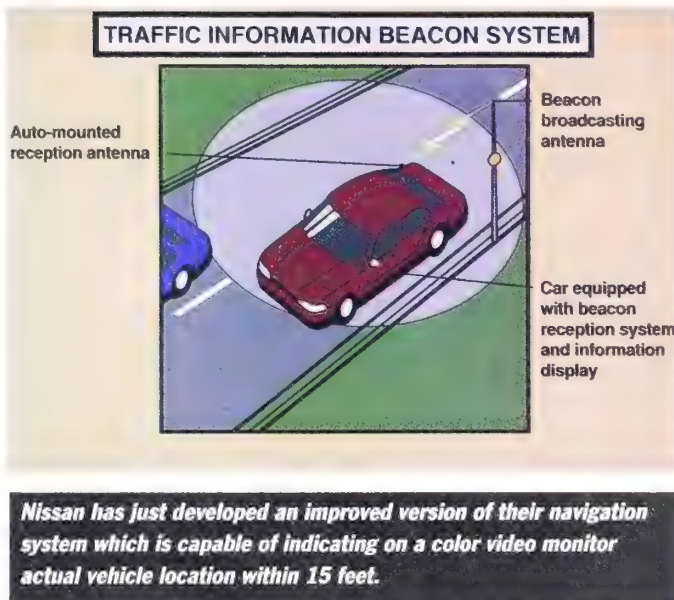
Sex & Driving

r're a parent of teenagers, may be worried about driving. You should be. rding to the Insurance ute for Highway Safety), a 16-year-old is 10 times ely as you are to be ved in a traffic accident. sk is also high among elder- vers — motorists aged 75 or . They drive sparingly so

their accident rate per capita is lowest for any age group. But they also have the highest fatality rate among all drivers.

Safety experts are studying trends in older drivers very closely, since baby boomers are now moving through middle age. By 2000, more than 35 million Americans — one in seven — will be over the age of 65. As the proportion of older drives sky-rockets, experts predict huge changes in everything from the size of instrument panel displays to the brightness of street lights.

And what about the age-old argument about men and women drivers? There's good news and bad news for both sides. IIHS says women are more likely than men to be involved in an accident, including injury accidents. But men are 60% more likely than women to be involved in fatal accidents. Teenaged boys are twice as likely as teen girls to be involved in a fatal crash.



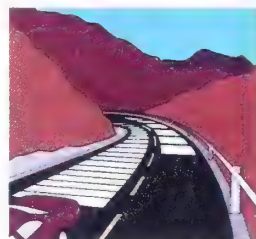
SAFE STREETS

Not all work in auto safety focuses on vehicles and their drivers. Engineers are busy cooking up dramatic new ways to make streets and highways safer, too.

Just keeping people on the road would help. While rear-end collisions and vehicles leaving the roadway each account for about 25% of all accidents, roadway departures

cause nearly eight times as many fatalities.

Making it easier for drivers, particularly older ones, to see clearly at night would also help. As is, the rate of fatal crashes at night is five times the daytime rate. Such highway hazards



could be reduced if cars could warn drivers when they stray off the

pavement. Or offer military night vision technology to help motorists peer more clearly through the gloom.

Smarter Highways

Such devices are part of what researchers call intelligent vehicle highway systems — IVHS for short. These sophisticated systems link cars with each other and the roads they drive. They



utilize a network of roadway sensors, vehicle-to-vehicle radar, electronic warning signs, "smart" traffic lights and even satellites.

"It's been happening in Europe sooner than here because they have more congestion than we do," says Sherman Henson, Ford's safety expert. Europe's effort, which stretches across national boundaries and involves many vehicle and component manufacturers, is called Prometheus.

In the United States, IVHS efforts are being coordinated by Washington (DC)-based IVHS America. Congress has directed DOT to develop a prototype for an automated highway system by 1997. Included would be stan-

dards that set the protocols by which vehicles and the roadway communicate with each other.

The primary objective of IVHS is to relieve traffic congestion. In the process, these systems promise big reductions in such highway problems as spinouts, multiple-car pileups and fender bender accidents. NHTSA is spending some \$17 million on IVHS between 1991 and 1993, including research on crash-avoidance technology.

If you live in a rural area, you may not consider congestion a big problem. Yet chances are you've noticed traffic is getting heavier no matter where you roam. The U.S. Department of Transportation estimates average

traffic volume in America will double by 2020. Unless traffic flows smoother by then, DOT estimates, it could take up to 10 times as long to drive a familiar stretch of freeway.

New technology could ease the problem. An on-board navigation device that alerts you to traffic snarls — and suggests an alternate route — could help you skip the perils of bumper-to-bumper driving, for example. There would be "smart" road signs. And electronic sensors at intersections could let you know when cross traffic is approaching.

Electronic "Halos"

Electronics experts envision the cars of tomorrow surrounded by a microwave "halo" used to sense the environment nearby. Drivers could monitor the info with the help of a large "head-up" display that makes readouts seem to hover in front of the hood.

Small head-up displays for such information as speed are already on the market. Promoters say the devices improve safety by allowing drivers to get information without taking their eyes off the road.

Your car's halo would monitor the locations and behavior of nearby vehicles. Problems could be displayed on your windshield and a warning buzzer sounded.

Head-up display provides a digital readout on the windshield allowing the driver to monitor speed without loss of visual contact with the road.



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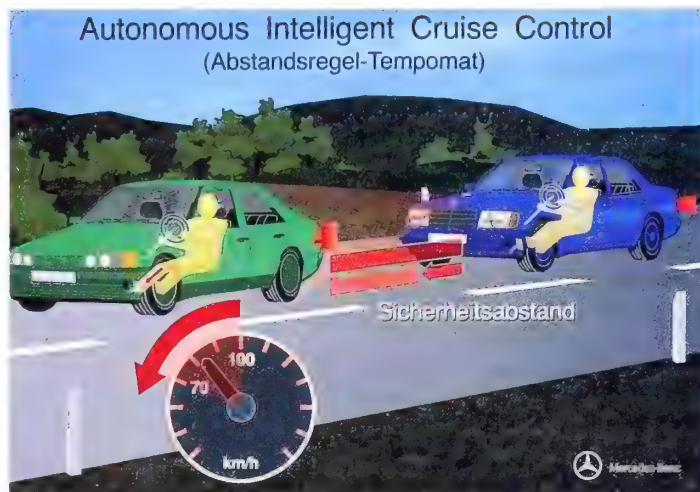
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Automatic Pilots?

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simultaneously.



Daimler - Benz is developing a high-performance infrared sensor capable of measuring the distance to objects in front of the vehicle.

Sound a little scary? You're not alone. IVHS researchers concede such systems won't come into general use anytime soon. But they also point out that consumers were just as jittery at first about cruise control.

"We need to make the driver feel more comfortable about the technology," says Kunihiro Kurami, principal engineer for IVHS at Nissan Research and Development Inc. He figures it will take 30 years for fully automated IVHS technology to be accepted.

Easing Into IVHS

Kurami sees three phases for the introduction of IVHS technology. We're in the first one now. Through this decade, he says, on-board navigation aids for drivers, including those that provide traffic information systems, will become commonplace. At the beginning of the 21st century, drivers will begin to adopt

systems that are half automated and half under human control. One example: The obstacle warning system that alerts you when you're following another car too closely will slow you down automatically if you don't back off.

Kuramis says platooning and other exotic technologies are unlikely before 2020. That's optimistic to some experts. One

survey by the University of Michigan predicts IVHS technology won't be widespread for another 50 years.

"The technology is secondary to human factors," agrees Ralph Wilhelm, director of advanced development at Delco Electronics. He says cheap computer memory makes almost any imaginable IVHS system feasible right now.

IVHS experiments are under way all over the world. About a dozen systems are expected to be ready for evaluation before the end of the decade. The potential market? Siemens Automotive estimates demand for IVHS equipment in the United States at \$5 billion by 2000.

William J. Hampton is based in Detroit and has written on the auto industry for numerous publications since 1971.

Art direction and design by W².

ADOPTED WORLDWIDE AS A REFERENCE WHEN MEASURING CAR SAFETY.



At BMW we believe the more you can trust a car, the more you'll enjoy it.

Which is why we go out of our way to ensure, through innovative engineering and comprehensive testing, that BMW provides a standard of safety to which the whole industry can refer.

Each and every BMW is equipped with advanced safety features designed not only to help the car better sustain a frontal impact, but more importantly, to help drivers avoid accidents altogether.



Preventing collisions is the idea behind a number of "active safety" systems.

These include suspension systems engineered for greater stability and handling in emergency situations. Anti-lock braking systems. Ergonomically designed seats to keep you comfortable and alert at all times. And an instrument panel that's clearly arranged and within easy reach.

In case of an unavoidable frontal impact accident, however, a BMW is ready with a variety

NO WONDER.



ive safety" systems to minimise damage
injury.
an extremely rigid passenger compartment
is a protective safety cell. Carefully engineered
ple zones," including hydraulic bumpers and
tubes, provide controlled deformation. There's
a driver's side airbag, and upon impact the
s automatically unlock to assist occupants in
e or rescue.
All of which is designed not only to protect
out to inspire you. Because inherent in the
driving is the joy of feeling secure.

And in the final analysis, the pleasure you
derive from a car is perhaps the most important
measure of all.



THE ULTIMATE DRIVING MACHINE.



DRIVING DOWN ACCIDENT STATISTICS

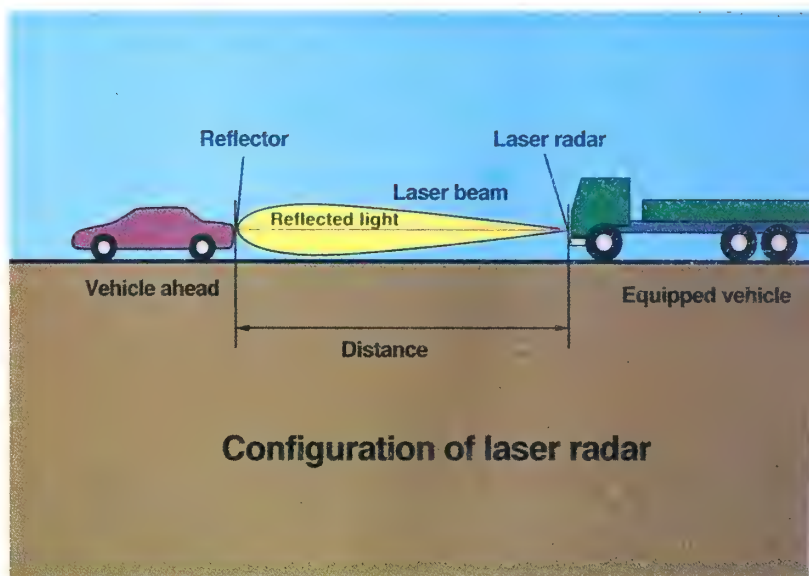
Who's the most responsible for America's safer cars? Credit the 26-year-old National Highway Traffic Safety Administration in Washington DC. NHTSA sets and enforces hundreds of safety requirements for cars and trucks.

There's no question that NHTSA has vastly improved the safety of today's vehicles. But the administration is shy about claiming too much of the credit for its efforts.

"Travel is definitely getting safer, but there are a lot of factors involved," cautions Barry Felrice, NHTSA's associate administrator for rulemaking. Safer roads and higher seat belt usage rates help reduce fatalities, for instance. But higher speed limits on interstate highways and an ever-increasing number of cars on the road work the opposite way.

Felrice also worries about the accident statistics. Yes, the fatality rate is dropping steadily. But the rate "corrects" for the fact that more people are driving more cars farther than ever. Ignore that trend and the actual number of highway deaths per year has been stuck between 43,500 and 53,000 for nearly a decade. Says Felrice, "We not only want to get the rate down, we want to get the actual numbers down."

It won't be easy. Consider air bags, perhaps the biggest safety innovation on the road today. Even if every vehicle on the road was equipped with air bags, NHTSA estimates, there'd still be 10,000 fatalities annually. Some deaths would come because crash



Nissan Motor Corp. has developed two laser radar systems that warn drivers of the presence of other vehicles. One system checks for traffic in a driver's "blind spot" and another (shown) alerts drivers when a vehicle is being approached too quickly.

speeds were too high even for air bags to handle. Others would reflect the fact that air bags aren't effective in every type of accident.

Felrice agrees that such innovations as anti-lock brakes, traction control, night vision devices and collision avoidance systems will help make driving safer. He also predicts many such devices will come into widespread use even if NHTSA doesn't require them, thanks to strong consumer demand for safer vehicles.

Not that NHTSA won't issue more safety standards in the future. The administration is considering requiring more padding for roof and door pillars to reduce head injuries, for example. It may also come up with more rigorous tests for side impact performance of light-duty trucks.

Can cars be made too safe? Surprisingly, Felrice notes, the answer may be "yes." Researchers call the phenomenon "risk compensation." It says that some motorists may offset the benefit of an accident-avoiding feature such as anti-lock brakes by driving more aggressively. (The same view says consumers who buy more fuel-efficient cars may end up driving them further — and thus burn up much fuel as before.)

Risk compensation may work against safety devices. Felrice notes that crashworthiness features like air bags make people drive recklessly. Even if they do, further safety improvements are still important. Concludes Felrice, "These improvements will bring societal benefits even if they don't help every individual."

SAFE-DRIVING TIPS FROM AN EXPERT

If you're looking for an easy way to improve your driving, just concentrate on what you're driving, that is.

Bob Bondurant, former driver and head of the Bob Bondurant School of High Performance Driving in Phoenix.

Bondurant's school teaches racing techniques. But, like most other high performance driving schools, it also has short courses on safe-driving techniques for everyday driving situations.

Most people aren't paying attention," says Bondurant. "They're not in an emergency." He provides tips to improve your driving:

Use Your Tires. Your car's only connection with the road is through the four contact patches where your tires meet the ground. The size of each patch — and thus its adhesion — changes as you accelerate, stop and turn. Hit the brakes, for example, and your car's weight shifts forward, giving front tires more grip but leaving rear tires with less. Accelerate and the opposite occurs.

Drive Correctly. Move the seat close enough so you can push the brake pedal to the floor if necessary and still have a slight bend in your knee. Don't slouch: Sitting more upright than you're probably used to improves your vision and increases your feel for what your car is doing. Move up enough so you can touch the top of the steering wheel with your wrist.

Hold the Wheel Properly. Most of us are taught to keep our hands at the 9 o'clock and 3 o'clock positions on the steering wheel. Bondurant says you'll get better control if you always grip the wheel at 10 o'clock and 2 o'clock.

"You'll feel the difference when you change lanes," he says.

Wear Your Seatbelts. Belts help prevent injury in a crash. They also hold you in place as you drive so you can maintain control in sharp maneuvers or during an accident.

Look Ahead. Anticipate accidents before they happen. Check traffic up to 15 car lengths ahead on the highway. Use your mirrors to monitor traffic around you. Leave yourself room to maneuver around a potentially hazardous situation. And observe what the driver ahead is doing. "If he's not paying attention," suggests Bondurant, "get away from him!"

Tread Lightly. Push the throttle pedal like you were squeezing water out of a big sponge. That eliminates jerky, jerky acceleration which can create a skid, especially on slippery roadways.

Brake Easy. Don't just slam on the brakes in an emergency. Use firm pressure, but back off if the wheels lock up. (If your car has anti-lock brakes, the system will automatically take care of this for you.)

Be Polite. Courtesy and patience are important to safe driving, no matter how hurried you are.

HOW TO BUY A SAFER CAR

The next time you go shopping for a new set of wheels, you'll undoubtedly wonder about safety. But how can you make an informed purchase? Here are some points to consider:

Big vs Small. In general, bigger cars are safer than smaller ones. It's a simple case of physics. The Insurance

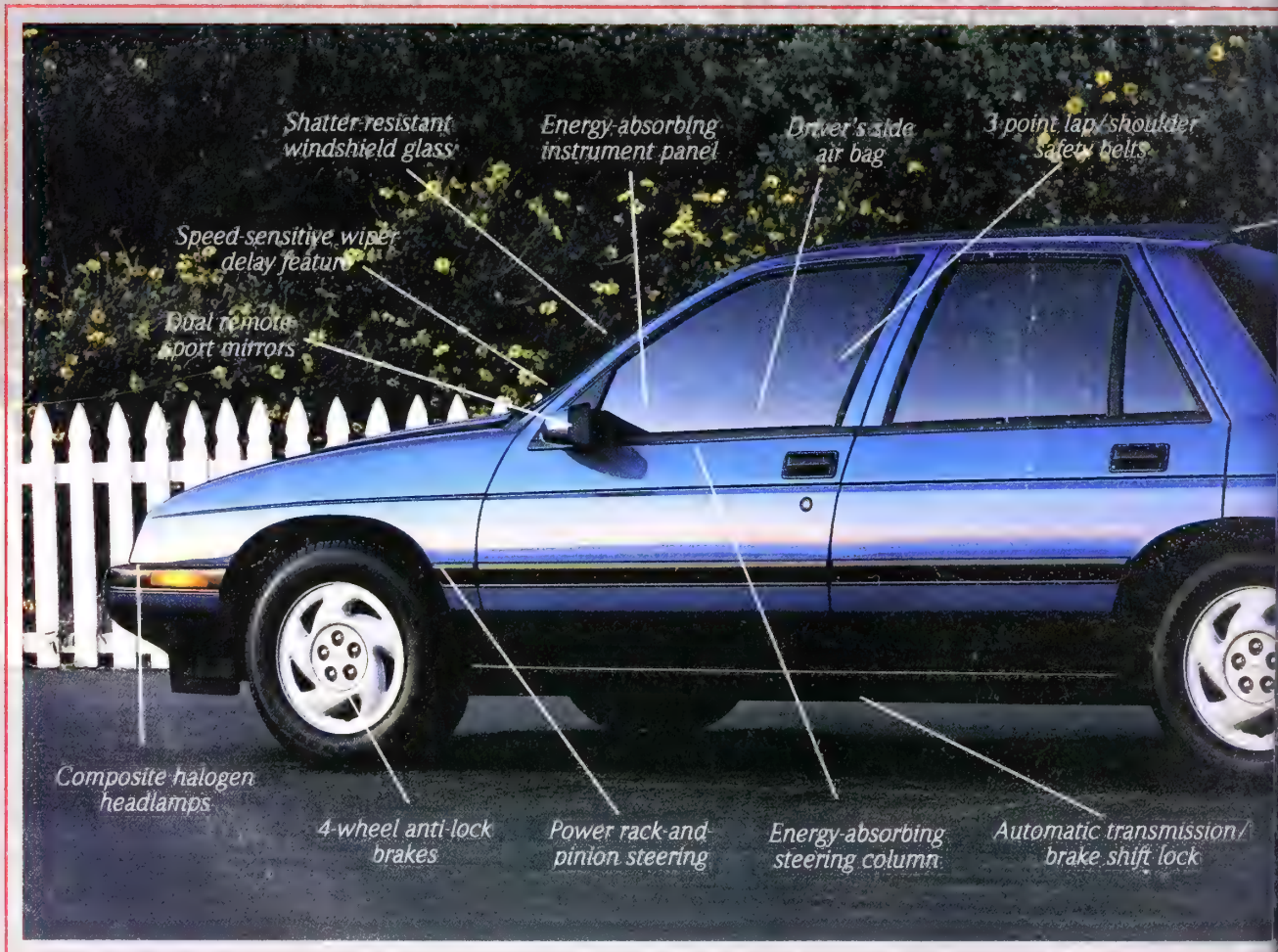
Institute for Highway Safety says 15 of the 17 two- and four-door cars with the highest injury claims are small. On a per-car basis, small cars account for more than twice as many fatalities as large cars.

Belts. Safety belts are a car's most important safety feature, so get ones that are comfortable to use. Three-point belts that you buckle yourself are best — if you use them. Adjustable upper belt anchors can improve comfort. Make sure seat buckles are low so the lap belt fits snug across your pelvis, not your stomach. Also look for dual-mode cinching front lap belts that secure a child seat. If you're forgetful, motorized belts are convenient. But you still must buckle the lap belt manually for proper protection. Door-mounted belts are generally inconvenient in their automatic mode.

Air Bags. They're already available in more than half of all new cars on the market. By 1998 they'll be standard equipment in all cars, vans and light-duty pickup trucks. These automatic cushions can avoid many injuries that belts alone can't prevent. That's because belts are designed to stretch as they slow you down. In a severe crash, you can still hit the steering wheel or windshield even when belted properly. Air bags pop out to form a barrier between you and these hazards. Then they instantly deflate.

Head Restraints. Head restraints help prevent whiplash if your car is struck from behind. Look for models that provide restraints for rear passengers, too. Fixed restraints are best because they're ready to protect whether you adjust them properly or not. Avoid small adjustable restraints that must be raised to do any good for all but short people.

First We Designed In The Air Bag.



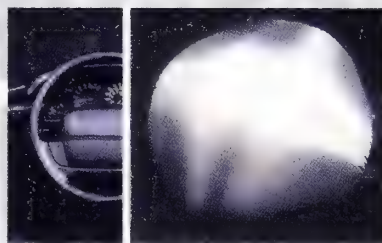
Then We Designed In All The Ways To Avoid It.

Corsica's driver's-side air bag* is designed to deploy in a moderate to severe frontal collision. Which is why every driver and fleet administrator hopes to never see it.



At Chevrolet, we feel the same way. And at GM's bio-medical research lab, more Ph.D.s and M.D.s are involved in automotive safety research than at any other car company in the world. GM engineers each air bag system for the vehicle in which it is installed. These driver's-side air bags are standard on 1993 Caprice, Corsica, Chevy Beretta and Corvette.

And dual air bags will be standard on the 1993 Camaro. Similarly, GM



developed an award winning anti-lock brake system that is standard on many 1993 Chevrolets, including Corsica.

And of course, at the world's largest proving grounds, GM puts thousands of hours of research and testing into developing responsive, predictable handling and braking systems to help drivers maintain control, even during

emergencies. And keep the air bag safely packed away, where it belongs. For more information, call Fleet Operations at 1-800-248-2897.



*Always wear safety belts, even with air bags. Chevrolet, the Chevrolet Emblem, Camaro, Caprice, Corsica, and Corvette are registered trademarks and Chevy is a trademark of the GM Corp. ©1992 GM Corp. All Rights Reserved. Buckle up, America!



Chevrolet. The Heartbeat Of America™

AT THE OLD PULLMAN PLANT: REBUILDING PASSENGER CARS AND PLANNING NEW ONES



STRATEGIES

WHY MORRISON KNUDSEN IS RIDING THE RAILS

It sees a train renaissance, and aims to supply the rolling stock

In south Chicago's decaying industrial belt, amid abandoned buildings and three-foot-tall weeds, a long-idle 80-year-old factory is slowly coming back to life. Inside, a skeleton crew of 50 people is stripping down commuter railcars, rebuilding them, and planning an ambitious move into production of all-new transit cars. The reopened factory, once operated by Pullman Co.—that hallowed name of the rails—represents the first attempt by a U.S. company to jump back into rail passenger-car manufacturing, a business abandoned by American producers in 1987.

The manufacturer is an unlikely player: Morrison Knudsen Corp., a Boise (Idaho) company better known for construction and engineering services. But with its 77-year history of building more than 20,000 miles of rails, MK now wants to become a leader in making the locomotives and passenger cars that ride them. It has already won nearly \$1 billion in passenger-car contracts (table),

and it's planning to bid on an additional \$1.3 billion by next January. In September, it delivered its first all-new railcar, to the Chicago Transit Authority.

It's a bold and risky strategy for William J. Agee, 54, MK's chairman and CEO. Morrison Knudsen has 10 years' experience rebuilding transit cars, including substantial overhauls of about half of New York's subway fleet. But it has no track record in manufacturing from scratch. After quickly amassing a \$1 billion backlog of railcar orders, MK may find that delivering quality cars on time is a challenge. And with the low bids to win those orders, it could find making good money on them even harder.

MISSIONARY ZEAL. Still, Agee is convinced he's on track. He's betting that the U.S. has embarked on a rail renaissance, with cities investing heavily in transit to relieve road congestion and ease air pollution. Rather than the tired old industry of the past, Agee sees rail as a preferred transport mode for the

future. It's a vision he promotes with missionary zeal: He foresees not just high-speed rail between cities but commuter transit in every major metropolitan area. "We can't go on just driving over America and calling it progress," he says.

The market could indeed be huge. Chicago, Los Angeles, and San Francisco have already levied new taxes or issued bonds to fund rail projects. A second round of about a dozen cities, including Indianapolis, St. Louis, and Seattle, is actively planning for commuter rail operations. The much-discussed high-speed-rail project in Texas, MK would be the prime contractor. There are overseas opportunities as well: Taipei is taking bids for its new subway cars, and other Asian cities may follow.

Agee badly needs a winner. Even before he took the helm at MK in 1988, he had tried to rebuild his business reputation. As chairman and CEO of Bendix Corp. from 1980, he attracted criticism because of his relationship with a young protégé, Mary Cunningham, whom he later married. Then, in 1982, he launched a bid to take over Martin Marietta, which fought back by buying MK shares in a "Pac-Man defense." Allied Corp. stepped in as a white knight and absorbed Bendix, Agee lost his job.

MK's board called Agee to his hometown of Boise in 1988 to rescue MK from deep debt and heavy losses. He cut payroll, stopped bidding for small



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ects, and rebuilt the company's international business. He made MK's transportation-construction business No. 1 in the U.S., although MK lags behind in its three other main lines: designing and building facilities for power, industrial processes, and hazardous waste. Agee also strengthened MK's balance sheet, cutting debt from \$300 million to near zero and piling up \$100 million in cash.

But the profit turnaround he promised proved elusive: Earnings in his first three years got stuck in the range of \$33 million to \$36 million. In 1991, the company earned just \$35 million on sales of \$1.98 billion. This year looked even weaker. Then, in late September, Agee dropped a bombshell: Write-offs of about \$27 million for accounting changes, recall of some debt, and loss of a key rapid-transit project in Honolulu will likely mean a loss this year. On Oct. 20, MK announced a net loss of \$11 million in the third quarter.

The write-off news hit hard on Wall Street, where analysts are leery of Agee's promises. "Just when it looks like their problems are behind them, ka-boom! Three more problems crop up, and it's off to the races," says Byron K. Callan, an analyst with Prudential Securities Inc. in New York.

With many of MK's other businesses mired in recession, Agee is leading the charge into railcar manufacturing. On the way from Honolulu to San Francisco for a Bay Area Rapid Transit (BART) bid last February, Agee spent five hours in MK's jet reviewing the bid with his top rail-systems executives. His last-minute decision to shave the price by more than \$10 million brought MK in under its closest rival by \$700,000.

BAD TIMING. Sometimes, though, Agee's involvement has backfired. In January, after MK lost out to Sumitomo Corp. for a \$115 million railcar contract in Los Angeles County—even though MK's bid was lower—he flew down to protest. Because of the timing, just after President Bush's ill-fated visit to Japan, Agee ended up fanning the flames of anti-Japan, buy-American sentiments, which forced the county to rescind the contract.

That made Agee some enemies. "He seemed to be shooting from the hip, and I don't think he served his company well," says Jacki Bacharach, a member of the Los Angeles County Transporta-

tion Commission. "These are issues that had been discussing for years, and got lost in a political hailstorm." In October, the city awarded an initial car contract to Sumitomo. MK did not win the deal, saying it was too small to bid, though, on a \$250 million, follow-on contract, but its chances of defeating Sumitomo seem slim.

Since losing out in Los Angeles, MK has won every major railcar contract it has bid on. But critics say the company is getting in over its head. After MK lost out to Montreal's Bombardier Inc. for a huge \$380 million Chicago Metropolitan Area Rapid Transit contract in January, the United Auto Workers protested. Bombardier was not required to use a UAW facility, whereas MK has committed to a union. "Not only do



GETTING ON TRACK

How Morrison Knudsen built a \$1 billion railcar business out of new railcar orders

CHICAGO TRANSIT AUTHORITY 256 new cars, with option for 118 more. **Price:** \$209 million. **Won:** September, 1990

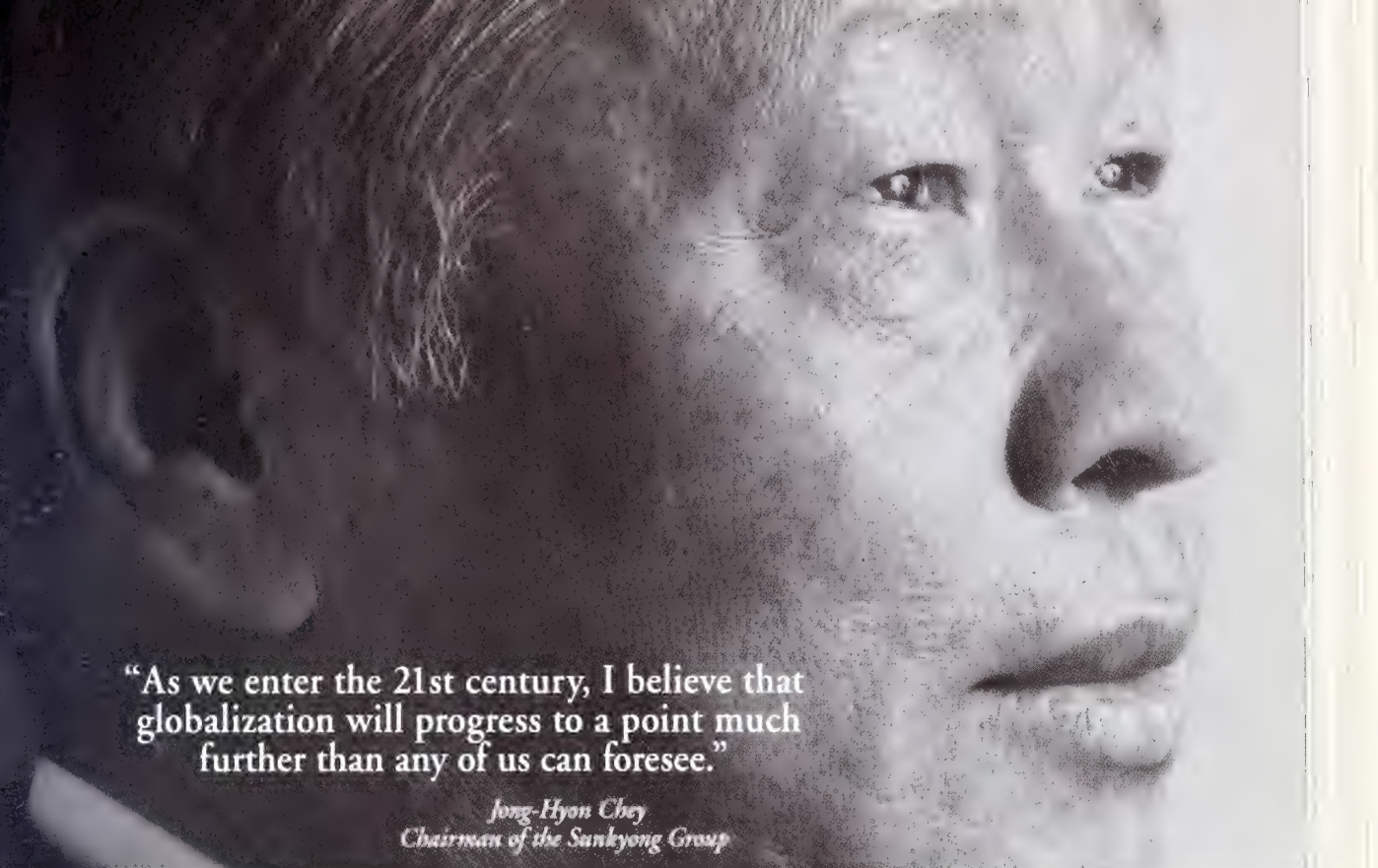
NEW YORK'S METRO-NORTH COMMUTER RAILROAD 48 new cars, with option for 18 more. **Price:** \$101 million. **Won:** October, 1990

METRA CHICAGO'S COMMUTER LINE 111 new cars, rehabilitation of 140, with option for 178 additional new cars. **Price:** \$380 million. **Won:** January, 1992

CALTRANS CALIFORNIA TRANSPORTATION DEPT. 88 new cars, with potential for 178 more. **Price:** \$155 million. **Won:** February, 1992

BART SAN FRANCISCO'S BAY AREA RAPID TRANSIT 50 to 80 new cars, with option for 250 total. **Price:** \$140 million. **Won:** March, 1992

DATA COMPANY REPORTS



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A project of American Forests, America's oldest nonprofit citizens' conservation organization.

have a lack of experienced production workers, they lack experienced management to build the new railcars. Carole Travis, president of UAW 719, "They're up to their eyeballs in commitments that it remains to be seen whether they can deliver on."

MK says it can meet the challenge of delivering 16 cars a month to the Metropolitan Transit Authority, supplied out of a factory in Hornell, N.Y. "The quality is first-rate," says John Hruby, CTA's general manager of rail engineering and technical services.

'A LOT SIMPLER.' MK is benefiting from a bit of lucky timing: With the aerospace industry downsizing, the company is picking up talented engineers to build rail vehicles with sophisticated guidance and control systems. Heading the charge is Thomas J. Smith, 52, who has 30 years of factory management at McDonough Corp., where he worked on the Apollo program, as well as at Northrop Aircraft, Fairchild, and Fokker. "Building a steel railcar is a lot simpler than making lunar modules," says Smith.

They may not be as complex as spacecraft, but MK's cars will be high-tech. Besides designing a new car for the California Transportation Dept., MK's engineers have created a microprocessor-controlled door-closing mechanism now being tested in New York. And they've developed microprocessor-controlled locomotives. MK is also designing new locomotives: One will run on natural gas; the other will have a high-horsepower diesel engine. MK has been hauling locomotives for 20 years, but these will be its first built from scratch.

Even if MK does deliver on its promises, though, it's unclear whether it can succeed where so many other companies have failed: making money in railcar manufacturing. When remodeling orders dried up this year, the rail-systems group posted two quarters of losses before the Chicago Trailblazers started in September. Agee says MK is already making money on its cars, but startup costs may be high for its two new plants. And once it has its factories up and running, MK will have to be even more aggressive in winning orders to keep them humming.

Agee has a lot riding on these cars. To silence critics and regain his reputation, he needs to show that MK's performance can match his promises. Obviously, we need more time to prove it, says Agee. If he's right, he'll be a hero to not only commuters but also investors. And an industry once considered as hopelessly unprofitable will turn to America's heartland.

*By Don Jones, Yacht in Boise, Idaho
Kevin Kelly in Chicago*



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CORPORATE GENEROSITY IS GREATLY DEPRECIATED

Hard times have business limiting gifts, demanding accountability

Battered by sour real estate investments, Aetna Life & Casualty Co. is experiencing a very public, very painful retrenching: dropping money-losing subsidiaries, slicing its work force by 10%. No less drastic, but far less visible, is the effect on its philanthropic foundation. With the annual budget down 21% since 1990, to \$11.2 million this year, Executive Director Sanford Cloud Jr. and his staff have had to reassess radically how and why they donate to charities.

Once a smorgasbord of worthy causes, the foundation's agenda has narrowed to two: health-care programs for disadvantaged kids and projects to help minority kids succeed in college. Gone are contributions promoting youth employment, civil-justice reform, social services for AIDS patients, and neighborhood renewal. Nevertheless, Cloud asserts: "By reducing the number of areas, we have a greater chance of impacting some important societal issues."

FEWER CAUSES. Many of America's biggest corporate donors are following Aetna's example. As companies restructure, downsize, and otherwise change how they do business, so too are they overhauling how they give. Some companies still simply write checks to the United Way and the local art museum. But a growing number of givers are abandoning their traditional passive, scattershot approaches and consolidating a hefty portion of their donations in a few causes. A recent study of the 100 largest corporate donation programs by Vienna (Va.) philanthropy consultant John Coy found more than half have developed such strategic plans, 38 of which have been in place for less than two years. Says Jane J. Prancan, executive director of US West Foundation, which recast its giving in 1988:

"Spreading money around like the good fairy didn't seem like a wise use."

At Prudential, Honeywell, and American Express, foundation executives are acting a lot more like portfolio managers than pin-striped fairy godmothers these days. Describing their donations as "social investments" that they expect will deliver "strong returns," they are demanding greater accountability, measur-



able results, and higher visibility for their bucks. This shift into "strategic giving" affects not only the givers but the recipients—and not always for the better. Still, it's crucial in these lean times, observes Eugene R. Wilson, president of the Arco Foundation. "If we're perceived as people who just give away shareholders' money, we're not going to last very long."

Wilson has seen his budget plummet from \$37 million in 1983 to \$11 million in 1987, then bounce back to \$19.6 million this year—the result of huge fluctuations in the oil company's profits. That

has forced a new discipline into its foundation's giving. These days, much of the funds are geared to education: providing better teachers in the cities or linking social services for low-income families to school systems.

To justify their giving, many companies now also target areas more directly related to their operations. Kraft Foods Inc., which knows something about distributing food, donates about \$10 million in foodstuffs annually to food banks. It has also devoted much of its foundation's \$16.4 million budget to eradicating childhood hunger: It funds advocacy programs to increase food-bank use and runs its own food bank in Westchester County, N.Y., where its General Foods unit is based. Kraft hires its scientists and executives to bring some expertise to bear on issues of health and hunger. Of course,

it does not hurt to have Kraft's name associated with good nutrition either—"enlightened self-interest," as Vice-President Michael Mudd calls it. **PUNCHED BOWLS.** In some cases, corporate donations may cross the line from self-interest to self-interest. In recent years, college football bowl games have accepted gifts from corporate sponsors, often changing for renaming the tournaments ("the Cotton Bowl"). Now the Internal Revenue Service has hit 18 bowls with a fine of \$1 million over five years, saying the non-profit bowl games are really advertising, which makes the gifts taxable. The bowls have refused to pay.

Because they want to make a splash, companies no longer prefer to contribute to charities through groups directly. That's why umbrella groups such as the National Community AIDS Partnership, which had donations from Prudential, have seen their funds dwindle or disappear. As a result, fund-raising is lagging \$1 billion behind its pace last year, says Development Officer Peter Scheraga.

The new approach to giving has in part been thrust on companies by the nonprofits, which have deluged them with demands as government funding shrinks. But the sad truth is, corporations can't begin to fill the gap. Corporate donations, usually 1% to 2% of domestic income, have been hit

A hand-drawn map of Europe with various countries labeled. The map is oriented with North at the top. Labels include: AMERICA, CANADA, ATLANTIC OCEAN, IRELAND, ENGLAND, FRANCE, BELGIUM, ITALY, SWITZERLAND, AUSTRIA, GERMANY, CZECHOSLOVAKIA, and POLAND. The drawing is colorful and includes illustrations of buildings, a tower, and a car.

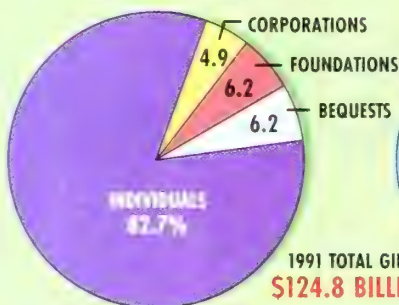
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weak financial performance. Total corporate giving has stayed flat at \$6.1 billion since 1990 (chart). "There's tremendous pressure on nonprofits," says John E. Riggan, partner of Conservation Co., a Philadelphia philanthropy consultant. "A shakeout is under way."

DUE CREDIT. Some charities have had to cut staff and programs (box). Others are running short of unrestricted funds to cover basic operating expenses, with donors earmarking contributions to projects bearing their names. "Paying to keep the lights on is not glitzy," says Francine Friedman, director of development for The Lambs Inc. As a result, the Libertyville (Ill.) nonprofit, which runs nine businesses staffed by the mentally retarded, is trying to build overhead costs into projects.

Some changes have improved nonprofits, however. Megan Cooper, executive

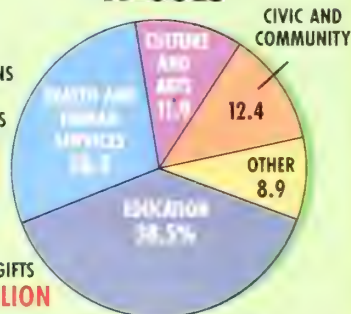
WHO GIVES THE MONEY...



1991 TOTAL GIFTS
\$124.8 BILLION

DATA: CONFERENCE BOARD, AMERICAN ASSOCIATION OF FUND-RAISING COUNSEL

...AND WHERE IT GOES



director of Executive Service Corps of Southern California, actually appreciates her donors' emphasis on quantifying results: "We have tightened our evaluation procedures. We're really the better for it." But demands for documentation can be a burden, too: "At some nonprofits, a Xerox machine is a luxury," notes consultant James N. Alexander.

Many strategic givers have become enamored with developing a model that will provoke systemic change in, say, public education. Trouble is, everybody

wants the glory of creating a model, but one wishes to reproduce one: "Company A die before it picks the model Company develops," says Val Lies, president of nors Forum, which resents Chicago companies. "'Not involved here' is surely an issue," concedes A Wilson. "You get the sticky business coalition-building power-sharing."

Companies insist strategic giving ultimately result in greater social good. But some charities are skeptical. "I want special projects, they're asking more paperwork, they're tying hands," laments Deborah Strauss, executive director of Chicago's Inform Technology Resource Center. Still, their own budgets shrinking, corporations see strategic giving as best—if not the only—way to get bang for the donated buck.

By Lois Therrien in Chicago

A BIG CHILL IN THE WINDY CITY

In 1990, WBEZ General Manager Carole Nolan faced a daunting task: turning a newly spun-off unit of the Chicago Board of Education into an independent public radio station. So, Nolan turned to the Executive Service Corps of Chicago, a nonprofit organization that provides retired executives as consultants to other nonprofits. After paying a \$4,500 membership fee, Nolan called on the former president of agency giant Leo Burnett Co. to craft an ad campaign. The former head of Allstate Insurance Cos.' human-resources department helped her fashion a salary plan. And she relied on the advice of a former executive vice-president of Turner Construction Co. when the station built a new facility. Marvels Nolan: "This kind of expertise is hard to buy at any price."

Unfortunately for young ventures such as WBEZ, the price for this talent is going to increase. That's because Chicago's Executive Service Corps, part of a national, 34-member network, is facing tough times. The Chicago affiliate, which relies on companies to fund 43% of its \$1.2 million annual budget, has seen donations fall 10% in the past year as companies reduce or redirect their donations due to strategic

giving plans. Explains ESC President Dennis Zavac: "We rely heavily on unrestricted funding, and those dollars are becoming scarcer and scarcer."

Result: a major retrenching. The ESC staff has shrunk to 16 since Zavac laid off five employees. ESC also has halted publication of a quarterly newsletter for its 400 volunteer executives and eliminated its annual membership meeting. Now, the nonprofit is hunting for office space that will allow it to halve its rent.

'SMARTER.' The organization also is mulling an increase in its rates for services. Client fees currently make up 16% of its budget, a percentage that has doubled since 1987. Even so, they don't even begin to cover costs: They cover the equivalent of \$3.56 an hour for the services it actually costs ESC \$20 an hour to deliver. While higher fees may cause hardship for some of ESC's 300 clients, the service "will still look like a bargain" compared with hiring

consultants at market rates, says John D. Connelly, executive director of Jobs for Youth, an organization that places low-income 17-to-21-year-olds in jobs. It has used ESC consultants for everything from developing a plan to recruit employers to setting up a financial record-keeping system.

Not all of the changes induced by the crunch have been for the worse. "We have found economies," says Zavac, "and we have become a lot smarter about using volunteers." After a six-month search, an ESC board committee found a health-care plan that cut premiums 12% but maintained the same level of coverage. Other volunteers are researching possible new markets for ESC's services, such as colleges. Indeed, with the new direction of corporate philanthropy, Executive Service Corps will need all the volunteer help it can get.

By Lois Therrien in Chicago



WITH GIFTS DOWN 10%,
A NONPROFIT GROUP
OF RETIRED CHICAGO
EXECUTIVES MUST RETRENCH



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BY WILLIAM D. MARBACH

HIGH COST OF SCANNING X-RAYS BY THE BOARDS



Until now, physicians have had two main choices for reading X-rays. Either hang the film on a light box or scan it into a computer workstation. Doctors prefer the latter, because they can manipulate the image's contrast and gray scale, and because the digitized versions are easier to store and transmit. To get images approaching the

quality of film, however, they need workstations that run fast and up.

Newport Beach (Calif.) company thinks it has a better way. RunTime Technologies has come up with a pair of boards that slide into off-the-shelf personal computers. One beefs up the PC's processing power; the other, the display, to show ultrahigh-resolution images. The pair costs about \$1,000, bringing the price of a PC-based system to around \$2,000. RunTime also sees another market—the military, which uses such systems to analyze aerial photos.

GETTING OUT VIRUSES FROM THE BOOTING UP THE PC

Software antidotes for computer viruses can be very effective. Trouble is, each new virus may require yet another antivirus program. Computer consultant Richard Levin, resident of Philadelphia's Levin & Associates, has long advocated a permanent cure—making the hardware virus-resistant and his ideas are finally catching on.

In September, Atlanta-based American Megatrends Inc. unveiled a so-called BIOS that it claims prevents viruses from booting a favorite target, the critical "boot" section of hard disk. BIOS stands for "basic input/output system" and is the first information a microprocessor loads into its memory. Enterprise Enterprises, a Gaithersburg (Md.) startup, recently released a plug-in card for IBM-compatible personal computers that intercepts a virus' attempt to infect a hard drive. If suppliers want to jump into this market, Levin says he's glad to prescribe such remedies for free. "I want the cure to end once and for all," he says.

IF TREES MEAN GLOBAL WARMING, THEN SO DO MORE TREES

Scientists know that rain forests play a role in setting the earth's temperature. Cutting them down can cause global warming. But jungles aren't the only forests that affect climate. A study in the Oct. 22 issue of *Nature*, climatologist Brian Bonan and colleagues at the National Center for Atmospheric Research report that the vast boreal forests circling around the northern part of the world can boost—by a lot—global warming. A boreal evergreen blanket absorbs up to three times as much solar radiation as snow-covered tundra, Bonan found. As

a result, his computer model shows that winter temperatures are 21F higher in the Arctic—and 3F higher at the equator—than they would be without the trees.

This phenomenon helped the earth warm up from the last ice age. But if the globe gets warmer because of rising levels of CO₂ and other greenhouse gases, as many scientists expect, the boreal forests will respond by expanding north. "That geographic change in tree line could cause an additional climate warming," says Bonan. The results also mean that cutting down the boreal forests would be a sure, if ecologically disastrous, way to help cool off the earth.

PLAYING REALPOLITIK AT THE REAL-WORLD COMPUTING PROJECT

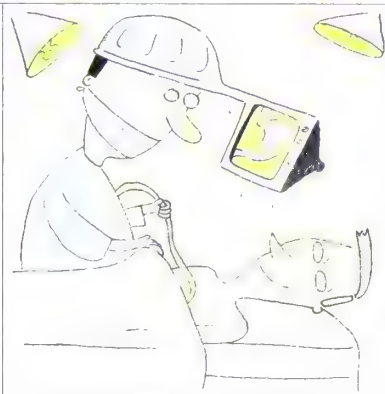
After months of negotiations, the U.S. and Japan have hammered out a framework for cooperation in Japan's \$600 million, 10-year Real-World Computing Project, which spans everything from brain-like neural network systems to massively parallel computers. Non-Japanese companies are welcome to participate in most areas. But for one sensitive arena—optical computing—Japan's Ministry of International Trade & Industry and the U.S. Office of Science & Technology Policy agreed to a more restricted set of ground rules.

The goal of the optical computing work is to design very high-speed machines that use light pulses rather than electronic signals. The U.S. and Japanese researchers will develop standardized devices such as lenses and switches for optical computers. Besides exchanging data, the teams will be free to swap components that can't be supplied locally.

Optical computing could be the next wave in information processing, and standardized hardware will serve everyone's interests. But neither side is comfortable sharing its secrets. The joint framework allows each to keep an eye on the other while guaranteeing a degree of hardware compatibility. If all goes well, the accord should be signed by the end of the year.

WHAT'S THAT TV SET DOING ON YOUR SURGEON'S HEAD?

If you feel alarmed that your surgeon is running around with a bicycle helmet on, relax. Battelle Memorial Institute has attached a small video monitor to the front of a helmet, counterweighted at the back, to help endoscopic surgeons view their work without having to look at a display across the operating room. In endoscopic procedures—



such as operations to remove the gall bladder—surgeons insert a tube through a small incision and rely on a tiny video camera to view the area they are working on.

More than 100 of those attending a recent meeting of the American College of Surgeons in New Orleans tried on the helmet, which has been successfully tested at U.S. Health Corp.'s Grant Hospital in Battelle's home town of Columbus, Ohio. The 2-pound video helmet still needs to be a little lighter, says Laura Eichenlaub, marketing manager for Battelle's medical product development group, but half a dozen companies have expressed interest in making it.

IS THERE A FAMILY DOCTOR IN THE HOUSE?

More GPs may be the answer to America's crisis

Health care is one of the most hotly contested issues in the Presidential campaign, yet on one point there's wide agreement: The cheapest way to keep Americans healthy is with good primary care. Family doctors, general practitioners, internists, pediatricians—all promote clean living, try to nip disease in the bud, and increasingly, are the frontline soldiers in the battle to hold down soaring health-care costs. "Everyone needs a generalist for basic health care," says Dr. Robert G. Harmon, director of the federal government's Health Resources & Services Administration.

The problem is, there aren't enough GPs to go around. In the early 1960s, the mix of generalists to specialists was about 50-50. But then high-tech medicine took off, fewer med students chose primary care, and the ratio changed. By 1990, it was 30-70 among America's 500,000 doctors (chart). The upshot is that 1 of every 8 Americans has no access to a family doctor. In rural regions, where 25% of the population lives, nearly one-third of residents are without adequate primary care. A 1987 study by researchers at the University of Wisconsin in Madison found a 45% drop over 25 years in the number of GPs in 10 major inner cities. And the problem isn't confined to the poor and uninsured. Even in well-off communities, insurers that run so-called managed-care networks say a shortage of generalists is a big problem.

LOW PRESTIGE. The underlying reason for the shortfall is the shift in medical schools and teaching hospitals toward research and specialty medicine. The trend has been hastened by an explosion in technology—advanced imaging gear, new surgical procedures, and machinery that keeps 2-pound babies alive.

Doing good with this equipment is ex-

PRAIRIE HEALTH COMPANIONS: HOOK AND VIRNIG IN MINNESOTA



citing, and it's where the money is. For students facing an average \$55,000 debt after medical school, the \$193,000 income of an orthopedist is a lot more attractive than the \$87,000 for an average family practitioner. Prestige is also an issue. The American Board of Medical Specialties anointed family practice in 1969, but many medical schools still don't have departments of family medicine. Future family doctors often attract derision, and 75% of first-year primary-care students

change their minds before graduation. Now, medical schools are revising curriculums, offering free tuition, radically changing residency programs to channel doctors into primary care.

Take the University of Minnesota Rural Physician Associate Program (RPAP). The longest-running such program in the nation, it was launched in 1971 after the state threatened to withdraw the school's funding unless it improved access to care in Minnesota's vast

regions. The school sends 30 of its 200 or so third-year students to outlying communities for nine-month clerkships, in which they'll be more likely to set up practices there. This summer, I worked with Arden Virnig, a wife, Patti Hook, who has sold out their shingles in Onamia, 10 miles north of Minneapolis. Her outback experience also helped her get into medical school for better education. At teaching hospitals, students tend to see 1% of patients who have the most serious—but least typical—problems. So most new doctors haven't had "real training in family-care problems," says Walter M. Swentko, interim director of RPAP.

After two decades, RPAP is a success. At 1 to 1,213, Minnesota's rural ratio of primary-care doctors to population is the lowest in the nation. And the program is now a model for other schools. **STACKED ODDS.** The State University of New York at Buffalo is converting five teaching hospitals in the area are pooling \$10 million in insurance reimbursements to promote primary-care education at the medical school. The money is paying for teaching sites in urban and rural practice clinics, for more faculty in general medicine, and for research in that field. The school says Dr. F. Bruder Stone, chairman of pediatrics at the school and a director of the program, is to increase the number of doctors graduating in primary

care from 35% to at least 50% by

Programs such as SUNY Buffalo help. But the odds are still stacked against primary care. In 1990, applications under the Health Professional Assistance Act—which gives hospitals money to help support practice residents—were cut to the lowest level in the program's 18-year history. And Medicare, which can pay a substantial portion of a resident's salary, doesn't pay for many services to

outside of hospitals. That dis-
 teaching hospitals from offer-
 aduate education in outpatient
 where residents would interact
 more typical patient population.
 medical schools and teaching
 s grapple with these problems,
 some sentiment for leg-
 a more equal distribu-
 physicians, says Paul B.
 g, director of the Physi-
 yment Review Commis-
 group set up by Congress
 y issues such as medi-
 cements and the supply
 rs. There is talk in Con-
 f limiting "the number
 s in residency special-
 federally funded teach-
 pitals, Ginsburg adds.
 ntries such as Britain
 ada, where the mix of
 sts to specialists is 50-
 etter, such rules have
 funnel doctors into pri-
 re.

government is also trying to
 primary care pay better. Under a
 rised by Ginsburg's group, medi-
 cements to GPs will rise by 30%
 re years above the increase ap-
 all doctors' fees. The effect will
 ted somewhat by cost-cutting
 es that are being imposed at the
 me. "The administration kind of
 umber on us," says Dr. Robert
 executive vice-president of the
 an Academy of Family Physi-
 till, he adds, the new fee struc-
 a step forward.

So is the surge of women into medi-
 cal school. Over the past two decades,
 the share of women among med stu-
 dents has risen from 9% to 38%. And
 women tend to go into specialties clus-
 tered around primary care. For instance,
 65% of pediatric residents are women,

role in controlling health-care costs. Gra-
 ham says family doctors are less tech-
 nology-oriented than specialists. And
 over the years, GPs compile lengthy his-
 tories of patients, so each new ailment
 doesn't lead to a battery of tests. Spe-
 cialists, by contrast, may be eager to try
 out high-tech treatments they
 have learned during seven
 years of training. "When your
 only tool is a hammer, you tend
 to relate to all problems as
 nails," says Graham. "You're
 going to use technology any
 chance you get."

MINOR MEDICAL. Recent studies
 prove his point. In March, re-
 searchers at New England
 Medical Center in Boston found
 that family doctors hospitalize
 patients less often and give
 them fewer drugs and tests
 than do specialists such as car-
 diologists. Such facts are spur-
 ring the drive to turn out more
 primary-care doctors.

This doesn't mean rejecting the life-
 saving gains made in medicine over the
 past few decades. Instead, it reflects an
 awareness that the majority of ills don't
 require a CT scan or heart surgery. As
 was the case 50 years ago, most people
 can be kept healthy by a doctor who
 cultures sore throats, gives vaccinations,
 and urges patients to stop smoking or
 eat less fat. The twist is that today this
 folk hero can also hold down the nation's
 health-care bill.

*By Gwendolyn Kelly in Atlanta and
 Naomi Freundlich in New York*

A DEARTH OF PRIMARY-CARE DOCTORS

The percent of doctors
 who are generalists
 providing basic care



vs. only 4% of surgical residents.

As this trend spreads, primary care
 seems sure to get even more attention
 from politicians. That's because it saves
 money. For the rural and urban poor,
 lack of access to a family doctor—and
 the resulting failure to get checkups
 and shots—means that care is often ob-
 tained in an emergency room when the
 patient is seriously ill, a much costlier
 alternative.

Beyond that, insurers are making GPs
 the gatekeepers in managed-care net-
 works, giving them an unprecedented

WHY THIS MED STUDENT IS STICKING WITH PRIMARY CARE

as long as I can remember,
 ve had a vague wish to be a
 doctor. In college, at Johns Hop-
 was pre-med. But I graduated in
 aring '80s. I went to New York,
 an investment bank, worked
 and made good money.

I began volunteering at an
 ward at New York Hospital. I
 leave on those nights frustrated
 gry that a decade after the virus
 scovered it was still killing peo-
 y dreams of becoming a doctor
 ed. And in 1991, I entered medi-
 school at Emory University in At-
 with what, in 20/20 hindsight,
 great deal of naivete.

this romantic image of hanging
 shingle and fighting disease. Pri-
 care was my first choice—either
 practice or obstetrics and gyne-
 . I wanted to establish relation-
 with patients. To me, that's
 the challenge of medicine lies.



KELLY: PEERS MAY BELITTLE FAMILY PRACTICE

I haven't changed my mind about
 that, but there are obstacles I didn't
 foresee. First, primary care isn't the
 best choice financially: I'll be \$80,000 in
 debt at graduation. Though no doctor
 truly suffers for money, that's a heavy
 burden to bear for the lowest-paid phy-
 sician. Those among my colleagues
 who choose cardiology can expect
 \$400,000 salaries in a few years.

There are also times when I feel a
 little self-conscious about my choice.
 The word among students is that if
 you've got any brains, "tertiary" medi-
 cine—which involves complex diagnos-
 tic procedures and comprehensive
 care—is where it's at. Instructors of-
 ten refer to the best students as "fu-
 ture surgeons" and belittle the family-
 practice specialty. These attitudes
 trickle down. I've heard my peers say
 the reason so many women choose pe-
 diatrics is that "they want to be mom-
 mies." And students who take a family
 practice residency may be maligned by
 colleagues who say the choice is a sign
 of subpar academic credentials.

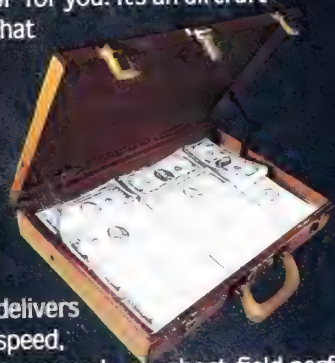
I'll probably struggle with the issues
 of prestige and income for a while. But
 I also know that doing what is person-
 ally satisfying is a good part of what
 makes life meaningful. To me, the
 meaning is in primary care.

By Gwendolyn Kelly in Atlanta

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and if your bottom line
doesn't improve, we'll
give you \$100,000.**

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your business letterhead at **609-987-8118** and we'll be pleased to send you the details.

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Y RICH MELMAN REALLY COOKING

and the restaurateur is a cadre of happy, loyal employees

oon at Scoozi's, his popular Ital-
eatery in Chicago, and Richard
man is scribbling circles and
lines on the sheet of white butcher
paper draped across his table. Hud-
th six others over the blueprint
ourmet fast-food court at Chica-
y Water Tower Place shopping
elman is trying to illustrate his
r a Chinese takeout joint his col-
want to call Need Some Dim
ne circles, he explains, are woks.

es represent a cook-
face tiered so that
omers can view the
ir-frying their orders.
ally, Melman doesn't
draw the chefs them-
So far, his sketch
more like a ball of
than a place to buy

an, 50, is no Rem-
but he is an artist
s. Chicago's preemi-
staurateur has dem-
ed an ability to spin
dy City hot spots al-
will. His concept-la-
mpany, Lettuce En-
You Enterprises Inc.,
veloped 32 restaurants
annual revenues of
110 million. Mostly in
but also in Arizona,
ork, and Minnesota,
uisines range from
to Italian, Greek to Spanish. De-
ns 1950s kitsch at Ed Debevic's
o crystal and white tablecloths
elegant Ambria. "Rich Melman
Andrew Lloyd Webber of the res-
industry," says food-industry con-
Ronald N. Paul of Technomic
e doesn't just produce food, he
s theater."

G DRAWERS. Largely unnoticed,
r, is what happens backstage at
s organization. It's as tightly
d as McDonald's Corp., but with-
stultifying standardization. Mel-
s created a string of discrete res-
s that thrive on individuality.
stakes, employee training, rich
, and expanding opportunities

have kept the company devoutly entre-
preneurial while developing employee
loyalty that is unusual in a business no-
torious for high turnover. The result is a
company with the resources and staying
power of a chain and the spirit of a cor-
ner bistro. Most of Melman's restau-
rants are perceived as hip. The cookie-
cutter Houlihan's at your local shopping
center is not.

At the center of it all is Melman. His
ideas drive expansion, and he takes an

man now has 23 partners in his restau-
rants, an eclectic mix of administrative
and operational people, including sever-
al chefs who helped develop successful
restaurants. Susan Southgate-Fox, vice-
president for human resources, worked
her way up from waiting tables at
Bones, a chicken-and-ribs joint. Now, she
owns shares in several restaurants—the
first mother to make partner.

TEAMWORK. Melman trusts his workers
to be partners largely because Lettuce
has trained them. Nobody is promoted
unless he or she has prepared a replace-
ment, and many people started at the
bottom and rose through management.
Luis Garcia started at Tucci Benuech in
1987 as a dishwasher who spoke no Eng-
lish. Lettuce adjusted his work schedule
so he could take English classes and
promoted him through a series of jobs.
Now, he's a manager at Tucci. Says Gar-
cia: "If you want to become someone,
Lettuce opens the door for you."



MELMAN'S RESTAURANT RECIPE

NOVEL CONCEPT 'You don't
just open an Italian restau-
rant, you open one with a
bakery attached to it or with
a portion of the menu devo-
ted to vegetarian offerings'

DETAILS Executing down to
the smallest details—even mi-
nutiae such as lighting and
aromas—makes a concept
come to life

PEOPLE Training programs,
operations manuals, and
thoroughly thought-out re-
cipes translate into employees
who do the right thing

active role in designing each of the res-
taurants. But he's also careful to let oth-
ers in on the action. Each restaurant is a
creation unto itself, with a team of chefs,
managers, designers, and artists who
concoct a "history" of the new eatery
to keep the group focused. So, Tucci Be-
nuech resembles an outdoor Italian vil-
lage cafe, complete with a pair of men's
drawers hanging from a line overhead,
while Tucci Milan has the sophisticated
look of a big-city trattoria.

Each restaurant also has its own set
of partners—often longtime Lettuce em-
ployees rewarded with the opportunity
of ownership. Partners share profits and
enjoy an internal market for their shares
in case any of them leaves or dies. Mel-

For Melman, treating employees well
is simply good business. "If people are
happy and able to make a decent liv-
ing, you can have teamwork," he says.
"That falls apart when individuals are
unhappy." Perhaps that credo emanates
from Melman's disgruntlement with his
first boss: his father. Morrie Melman
ran a popular deli-style restaurant in
the Chicago suburb of Skokie. As a teen-
ager, Rich helped out on weekends and
after school. He attended and dropped
out of three colleges, before joining his
father full-time. But a few years later,
when dad wouldn't make him a partner,
Melman struck out on his own.

He got his big break when he teamed
up with local real estate agent Jerry

Orzoff to open R.J. Grunts in 1971. Grunts, a burger-and-chili place, remains Melman's favorite restaurant, in part because he met his wife there. Orzoff, who became Melman's mentor, died of a heart attack in 1981—but not before the pair started several restaurants with such names as Fritz That's It and Lawrence of Oregano. In 1976, they bought Chicago's famous Pump Room restaurant, much to the chagrin of Chicagoans who thought it would fall victim to another Melman theme. It didn't. Melman hired a renowned European chef to improve the menu, while keeping the Pump Room's classic ambience intact. Since then, his restaurants have run the gamut from elegant to goofy.

TOUCHY-FEELY. Melman has had his stumbles. He outright failed when Playboy Enterprises Inc. hired him in 1986 to turn around the ailing Playboy Clubs, which have since folded. Ditto for an attempt to revive a bar and restaurant owned by former Chicago Bears quarterback Jim McMahon. There's also some question as to how well his ideas travel. By 1991, he had pushed Ed Debevic's into six U.S. cities, including New York, and sold the restaurants as a package to a group of investors. Burdened by too much debt and sagging interest in the restaurants' '50s decor, the minichain has filed for bankruptcy.

Melman's success seems to come from sticking to his basic formula: defining an idea and assembling a team to implement it. And as Lettuce has grown, he has done his best to avoid the big-company syndrome. He doesn't like offices and regularly conducts business in the restaurants. Around Chicago, where his fame inspired a short-lived TV sitcom called *Jack and Mike*, Melman is known for his accessibility. A high school baseball standout, he's in love with softball. He both coaches and plays on the Lettuce softball team, which won the 1992 national 16-inch softball championship.

Melman's populist management philosophy often extends to the touchy-feely. He firmly believes, for instance, that psychological counseling helps him manage better. He has been seeing a psychotherapist every few months for more than 25 years, and, he says, "most of our key executives have been in therapy." Indeed, any of the more than 4,000 Lettuce employees are entitled to two free therapy sessions if they get divorced, and there's a fund employees can apply to for more extensive counseling in the event insurance doesn't cover their needs. "He's experimenting. He runs the corporation with the same creativity he puts in his restaurants," notes Michael Weinstein, president of New York's Ark Restaurants Corp. Now, if he can only learn to draw.

By Lois Therien in Chicago

Marketing

RETAILING



A MITSUKOSHI BOUTIQUE: A BIG TIFFANY'S RECOVERY WILL DEPEND ON A PICKUP IN

WHO SAID DIAMONDS ARE FOREVER?

In Japan, Tiffany's is hitting a far worse slowdown than it expected

At the Mitsukoshi department store in Tokyo's Ginza district, working women are appreciatively ogling the wares in the Tiffany boutique. Eri Nomizu, a cosmetics company employee, owns a modest, silver Tiffany bookmark, but is working on graduating to a diamond ring. "I like the design of Tiffany's goods," she says. Junko Yamada, a 27-year-old employee at an import-goods company, already has her Tiffany diamond. Inspired by the popularity of Tiffany & Co. in Japan, she paid 400,000 yen, or \$3,300, for her ring at a Tiffany's while in Los Angeles. Says Yamada: "No other jewelry brand is as accepted by so many people."

With fans like these, you'd expect Tiffany's to be booming in Japan. Think again: After a glittering performance through much of Japan's go-go 1980s, the tony U.S. jeweler's Japanese prospects suddenly seem to have turned into paste. Investors anticipated some slowdown as Japanese consumers pulled back on their spending. But Wall Street wasn't prepared for the news it got late in September: Tiffany's announced that sales to Mitsukoshi Ltd., which accounts for virtually all of the jeweler's Japa-

nese business, would drop 35% to some \$73 million (chart). Shares slid two points, to 24.

CAUGHT. It's been a painful reversal for Tiffany's chairman, William R. Tiffany's has been selling products since 1972 to Mitsukoshi, an upscale department-store chain with some \$7 billion in total sales. But it was after Tiffany's bought out of Tiffany's from Products Inc. in 1984 that the signature blue boxes became so familiar sight to affluent Japanese consumers. Sales to Mitsukoshi rocketed from roughly \$3 million in 1984 to an estimated \$113 million in 1991, a big chunk of Tiffany's total revenues. And it was a big chunk of the U.S. sales, too, accounting for the jeweler's \$45 million in total sales.

So what went wrong? Mitsukoshi, which owns 14% of Tiffany's, won't comment, except to say that Tiffany's products still draw customers and sales well. But Chaney, Tiffany's 40-year-old chief, says a drop in sales caught Mitsukoshi with more inventory than it wanted. "They're like the devil, and when sales

est wasn't turned off gradually," he says. Mitsukoshi is facing its own. The chain recently

and its first loss since 1984. The impact of Mitsukoshi's decision is automatic. Standard & Poor's immediately changed its outlook—to a negative—on Tiffany's \$100 million in analysts quickly revised estimates. The hit from Mitsukoshi will be a 42% drop in Tiffany's 1992 sales, to \$18 million on sales of \$502 million, says Amy Ryan, an analyst at Prudential Securities Inc. One encouragement: Despite a deep recession in jewelry retailers, sales at the 14 stores should grow by around 9% this year, after falling 1% last year. The program of opening new stores

by closing old ones will improve U.S. sales. Even more next year will plans to expand further in such markets as Korea and

TUFF? Still, the fate of Tiffany's sales will depend in part on Japan. Seto, a retail analyst at the Nikko Research Center, believes that Tiffany's sales may run into more than the glitch caused by a temporary inventory glut. Other Western jewelry items imported into Japan during the recession have been snapped up by Japanese consumers, but the name lost its cachet, he says. "Even teenagers don't want to become like the brand."

He dismisses all talk of overexposure in Japan, noting that Tiffany's sales have less than 1% of the \$20 billion Japanese jewelry market there. Still, he predicts a drop as much as 3%. "The jewelry market there is as big as in the U.S., but they don't have a fantastic name," he says. Jewelers such as Cartier Inc. and Asprey are making inroads, but they are hurting, too. "Our business is down off 25% in Japan," says Ed Green, president of Asprey U.S. In these hard times, Chaney is pushing to ease Tiffany's presence in Japan. The move that will lessen the company's dependence on Mitsukoshi, he expects, is the new boutiques in hotels, as well as the 100-to-10,000-square-foot store in Tokyo in 1994. How that will affect rela-

tions with Mitsukoshi is unclear, but Chaney says the retailer will play some role in setting up the stores.

Back in the U.S., Chaney has to stare down the challenge posed by bargain-loving consumers. Part of his approach is to disprove the notion that Tiffany's only provides bibelots for the rich. He is quick to point out that the average Tiffany's transaction is under \$200. To get the word out, he has increased Tiffany's advertising budget from \$6 million in 1986 to \$18 million this year, about 3.5% of sales. Chaney plans to increase ad spending further to as much as 4% of sales.

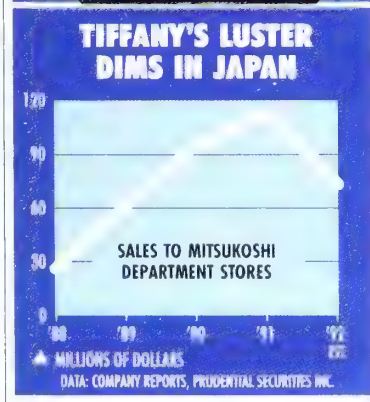
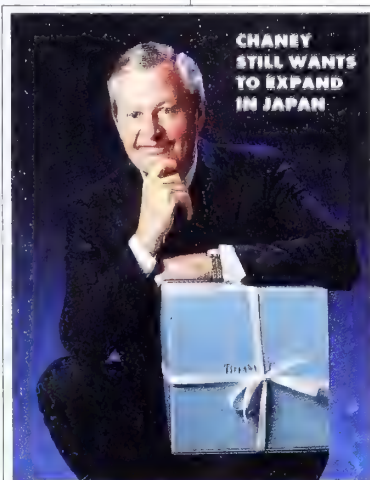
BYE-BYE GLITZ. The new campaign stresses that a Tiffany diamond solitaire engagement ring starts at a mere \$850.

Says one tag line: "For less than you may have believed, a Tiffany diamond is more than you ever imagined." The company is also publicizing its free Tiffany-blue booklet entitled *How to Buy a Diamond*. The result: Chaney says sales of diamond engagement rings have increased more than 30% this year.

Tiffany's annual report also reflects the good-bye-to-glitz tone it wants to adopt. While the cover of the 1990 report depicted a dazzling diamond-and-gold necklace, the 1991 report shows a sober gray-and-white photo of the entrance to Tiffany's Palm Beach store. Apart from two blurry photos of a ring and necklace inside, you'd never know Tiffany's was in the *bijoux* business.

Of course, that's still Tiffany's trade. Even in an age of consumer retrenchment, Chaney predicts Tiffany's sales will increase by 15% and profits will jump by 20% in 1993. And some investors agree that the Tiffany's name carries enough cachet to produce the sterling results he hopes for. Sure, Tiffany's has its problems, says Jeff Cardon, a partner at Utah-based Wasatch Advisors, which owns 110,000 shares of Tiffany stock. "But that doesn't mean something is fundamentally wrong. If someone gets a Tiffany's box, they're not going to say, 'This is the Nineties. I don't want this.'"

By Laura Zinn in New York and Hiroshi Uchida in Tokyo



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Neural networks. Genetic algorithms. Chaos theory. Fractals. Expert systems. Mention those terms to Wall Streeters, and most will likely think you're talking about some high-tech initial public offerings. In fact, they are new computer tools that could have a lasting impact on the Street and finance generally.

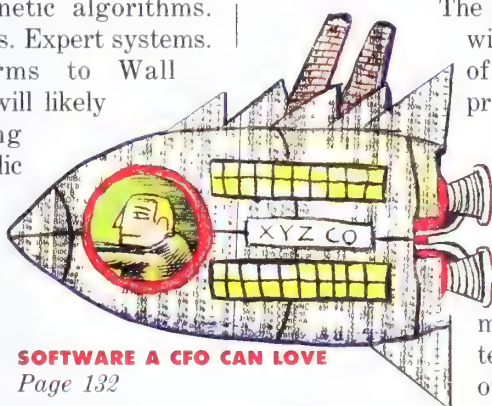
The computer is no stranger to finance, of course. For at least a decade, so-called rocket scientists and quants have greatly influenced trading, corporate finance, investment management, and securities analysis. Yet for the most part, their work has consisted of raw number-crunching that vastly sped up existing methods of analysis.



NEURAL NETWORKS ARE AT WORK

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Artificial intelligence and to mimic human thought processes. Chaos theory and fractals help explain configurations such as clouds, coastlines, and securities markets—all phenomena that rocket scientists have called "nonlinear."



SOFTWARE A CFO CAN LOVE
Page 132

The New Rocket Science got its start with the artificial-intelligence craze of the early 1980s. Yet grandiose promises of a problem-solving "expert in a box" proved illusory. Now, AI is coming back in new guises. To operate effectively, AI proponents have learned, programs require complex and subtle interactions between machine and humans, with each teaching and learning from the other.

Expert systems using AI are now quietly but swiftly proliferating throughout the financial world, and they are being increasingly used for such activities as forecasting, credit evaluation, and market analysis. Expert systems, say users, permit faster, more systematic, more informed decision-making. Chaos theory is more on the fringes, more talked about than used. But proponents of the theory insist that through its radically different view of the markets it could eventually overhaul the conventional wisdom of investment management.

A generous dollop of skepticism is advisable, of course. The boundary between rocket science and science fiction is not always clear. What is clear, however, is that the days of the Hewlett-Packard calculator and the simple spreadsheet are gone forever.



CHAOS HITS WALL STREET
—THE THEORY, THAT IS
Page 138

SOFTWARE EVEN A CFO COULD LOVE

'SMART' COMPUTERS ARE STARTING TO HELP EXECUTIVES PLOT STRATEGY

The computer, that brilliant fool of modern times, is gaining a measure of street savvy—and that's sparking fresh interest among high-level corporate finance types. Chief financial officers long relegated the computer to the back office, where it mindlessly crunched numbers for routine matters such as customer billing. But now it can function as a strategic planning tool and all-round financial adviser, making it suddenly welcome in the corporate suite. There is new software available that permits the computer to mimic human reasoning—and in a user-friendly fashion acceptable to even the most hardened Luddite in the front office.

CFOs are increasingly benefiting from the computer's ability to offer predictions, spot trends and trouble spots, and present options. Want to know the cheapest way to ship goods—this week and next June? Or where the waste is that keeps cash flow subpar? Or what capital spending makes sense strategically? Or what's the best employee stock-ownership plan?

'GREAT SHORTCUT.' While only a handful of companies are currently taking advantage of the software, the list is growing. "You're seeing this intelligence beginning to creep into all kinds of applications in the financial area," says Charles A. Christy, senior consultant with Arthur D. Little Inc., a Boston con-

sulting firm. Most users are large corporations that need to track vast revenue flows and international currency fluctuations, such as AT&T, Du Pont, Lockheed, Sears, and Xerox. Other, smaller users, such as Mrs. Fields Cookies Inc., find getting into this realm easy because it's not expensive. The cost to set up a system at a small outfit is about \$200,000.

True, a machine isn't about to replace the CFO. And no one is suggesting that a cybernetic brain will be making any final decisions for people. The day when a computer will actually think, like the nefarious Skynet in the *Terminator* movies, is far off. Today's "artificial intelligence" has several more modest variants that differ by degree of sophistication (table). Each promises quick and accurate sifting of data to find patterns that CFOs can act on, saving them time and headaches. "This is a great shortcut," says Randall K. Fields, until recently Mrs. Fields's CFO and now the cookie retailer's computer honcho.

Building bona fide wisdom into an electronic box is quite an advance, first commercialized in the early 1980s with methods developed at Stanford, Carnegie-Mellon, and Massachusetts Institute of Technology. Until then, the only strategic role for computers was rapidly calculating numbers, retrieving information, and sorting and ranking data. Although that spadework was helpful—an army of clerks would need weeks to do it—executives still had to figure out what all the facts meant and how to use them. Says

A NEW AGE GLOSSARY

ARTIFICIAL INTELLIGENCE

Software systems that attempt to replicate aspects of human intelligence. Term has fallen into disuse because early AI systems did not live up to their promise

EXPERT SYSTEM

A computerized decision-making technique that embodies knowledge gleaned from experts. It helps users sort out a blur of factors and choose the right option. Examples: forecasting, valuation



D. McInvale, CFO of New Orleans-based Entergy Corp., an electric holding company: "One of the things of the Information Age is that we have a lot of data. One of the curses you have a lot of data." The new software gives the computer expert. In Corporate America, the popular and user-friendly artificial-intelligence technique is the "expert system" which injects the experience of

seasoned experts—rules of thumb and tricks of the trade as well as knowledge—into the soulless circuits. This technology winnows out irrelevant factors and arrives at practical alternatives. Says Patrick Perez, chairman of software maker Neuron Data Inc. in Palo Alto, Calif.: "Without expert-system help, you cannot filter out the complexity." Using the past as a guide, such programs can deal with the avalanche of minor decisions that executives make daily. More advanced systems, such as neural networks, can learn by themselves from their mistakes. When the computer projects a 10% profit gain and the results come in at 5% because of an unforeseen slump in product demand, the computer learns from that and remembers next time.

These smart programs behave like a patient and polite aide. "They don't respond with: 'Here's the answer, and the answer's no,'" says Arthur D. Little's Christy. The computer, he says, "will tell you what it saw, suggest how to solve a problem, and point out the reasons it is suggesting this."

BROKEN PROMISES. Artificial intelligence, however, has suffered a rocky beginning during its almost 10 years of commercial availability. Many of the early AI software houses went out of business, about 20 of them around Boston alone. In fact, the term "artificial intelligence"—an umbrella expression for expert systems, neural nets, and other techniques—has fallen into disrepute and is seldom heard anymore. Early users found that the software was overly expensive and, worse, often promised to deliver far more than it really did.

What's more, the technology scared a lot of CFOs, who are accustomed to having information brought to them, not calling it up

themselves—a problem that persists, despite more accessible formats. Says Nancy Martin, a Coopers & Lybrand partner: "Walk into the office of a typical CFO, and you won't see a computer anywhere." This has a political dimension, too: The CFO, who usually prides himself on knowing everything that's going on, has a tough time working with the computer jocks who oversee the system. They "sit in his office, using terms that

he doesn't understand, and make him feel stupid," says one corporate financial official.

The systems won their first converts among financial companies—banks, insurers, brokerages—which must grapple with mammoth transaction volumes. They focus more on the front-line operations than high-level strategizing. They are employed by banks to evaluate loans, insurance companies to underwrite

policies, and brokerages to plan clients' portfolios and trade issues.

American Express Co., for instance, has installed expert systems to help its legions of credit authorizers, who sit at computer terminals and decide whether to O. K. a charge. That's a crucial function at AmEx, which has no credit limits on its cards. Before the new technology kicked in, an authorizer would look at as many as 16 screens of data per customer. The company felt this was cumbersome and that too many bad calls were made. So AmEx distilled the knowledge of its best authorizers into a program that speeds up and sharpens the process.

SIMPLE SOFTWARE. While nonfinancial companies are taking longer to appreciate the virtues of AI, they are coming around. A big obstacle has been that programmers had a rough time writing good software for corporate finance. Reason: Different industries and even individual companies have unique circumstances. A bank loan applicant can be judged by a fixed set of variables; a corporate income forecast, on the other hand, has far more unknowns to contend

The systems first won converts among financial companies that grapple with mammoth transaction volumes



NEURAL NETWORK

A more sophisticated system that tries to mimic human brain processes and learns from mistakes it makes. Used for predicting such things as market price movement and lending risk

CHAOS THEORY

Holds that seemingly random events, such as stock prices, actually have patterns that canny computer programs can detect. Used to analyze the behavior of securities markets

GENETIC ALGORITHM

A problem-solving technique useful in identifying and handling anomalies. Bowing to Charles Darwin, outcomes judged unfit do not survive to remain in program

DATA BW

Special Report

with, such as the strength of rivals' marketing drives.

Lately, though, a myriad of software is on the market to handle the entire spectrum of business. Digital Equipment Corp., for example, has a special system that follows the 23 steps of selling a machine, from accepting an order to receiving customer payment. Before AI, DEC had to wait a while between shipping the product and recognizing the revenue. Late payers and non-payers always made booking revenue tricky. These days, DEC knows in a flash what its actual receipts will be.

The growing power and user-friendliness of PCs nowadays is allowing the technologically benighted to partake of their wonders. Software is much less intimidating and, unlike early AI, doesn't flaunt its expertise. Programs now can walk executives through many complex operations that formerly required all sorts of abstruse commands. "The program does most of the work," says David Fein, vice-president of San Diego's ValuSource Inc. software company. The labor-saving aspect of computers shines brighter in the present era of corporate downsizing, when fewer people are on hand in headquarters to ana-

lyze data. Says Jim Garnard, CEO of Trinsic Corp., a software producer: "They have to do more with less."

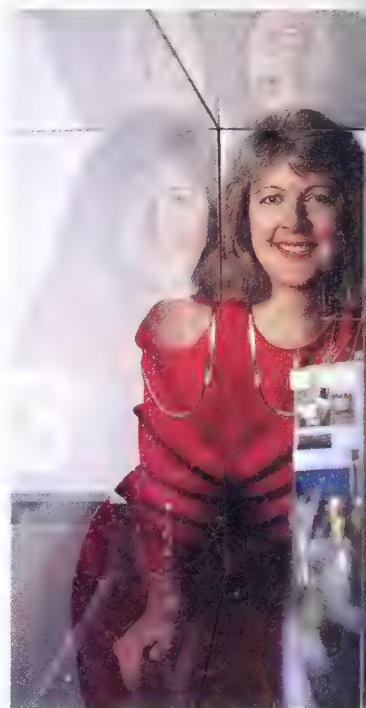
Changes in corporate structure have made AI more acceptable as well. The steadily growing presence of computers has forced many companies to name chief information officers, who often are

on the same level as CFOs. This brings computers "out from under a very conservative drudge," like the often tech-loathing CFO, says Arthur D. Little's Christy. Plus, computerized consulting firms have arisen to help out corporate clients, such as Dallas' Cost Containment Marketing Group Inc., which assays values of closely held companies up for sale. ValuSource software, says Cost Contain-

ment CEO Doug E. Childress, helps churn out a report on a company by "automatically pulling out numbers and then throwing them into the text."

Companies that do the job themselves find that the saving in time and money is the most immediate payoff. "You can't wait two weeks to say we'll figure out how to do something," says Elizabeth Jennings, CFO of Kerr Steamship Co. in Cranford, N.J. "If we didn't have the system, we would have to triple our

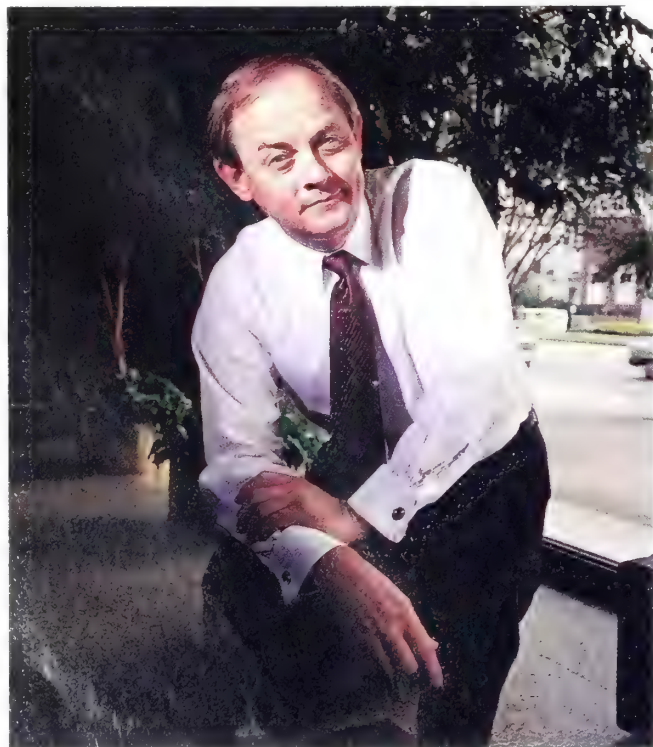
Programs now can walk executives through complex operations that had required all sorts of abstruse commands



staff." One way Kerr uses experts systems is to discover the cheapest means of transporting inland cargo. Rates, routes are built into the computer, which calculates the best itinerary, much like a telephone network with automatic routing. Rail rates get updated daily. Before, Kerr staffers had to spend large amounts of time hunched over manual calculators in hand.

Freed of this deadening work, managers can make the best use of their minds, deciding at a glance what to do next. District managers for Mrs. Fields used to take 4½ hours weekly to gather all the numbers from a single cookie outlet. With 10 stores in a typical district, that meant 45 hours each week. Now, the company's central office gathers all the data, and district managers spend more time at the stores. "The highest and best use of technology is to get people doing things with people," says Randall Johnson. "We're trying to get all the old functions obliterated."

FARSIGHTED. The expert system helps Park City (Utah)-based Mrs. Fields cut down on errors. At 800 stores, the company has a challenge keeping track of a kaleidoscope of ever changing expenses. Not only are leasing all the time, but outlets further complicate the picture by renting extra storage space by the foot. The potential for backlogs could drive an accountant mad if the software weren't there to



'One of the blessings of the Information Age is that you have a lot of data. And one of the curses is that you have a lot of data'

GERALD D. McINVALE
Energy Corp.

'You can't wait two weeks to say we'll figure out how to do something. If we didn't have the system, we would have to triple our staff'

ELIZABETH C. JENNINGS
Kerr Steamship Co.

giving local sales managers a profit analysis for each deal. Since the deals can be as individualized as snowflakes—depending on service contracts, purchase financings, supplies, and the like—a manager in the field might not know at once just how much he is reaping on one.

'LESS FUSS.' Widespread computerization cuts in two directions. The head office knows much faster what's happening in the field. But the field also can quickly find out the hot skinny company-wide. Mrs. Fields's Fields muses that this has cost top executives some power. As CFO, he says, time was when he could tell a subordinate in another state: "I

Although the computer may empower subordinates, that doesn't mean that they are free to run amok. Lockheed Corp. has a program that ensures that company procurement procedures are followed to the letter. Scientists at Lockheed's research and development facility in Palo Alto don't have to submit forms through the bureaucracy to order material for their experiments; they can do this right on their computer screens. But the program has a safeguard: It assists the scientists in filling out orders, walking them through all the different coding so they don't charge, say, industrial coolant to the wrong account. Good thing. "We've got lots of projects going at any one time," says Harold D. Leister, head of material services at the Palo Alto facility.

Computer enthusiasts see limitless possibilities for AI. Entergy employs computers to monitor cash flow and oversee travel and expense accounts. Next, the utility concern's McInvale says, Entergy will install programs for maintenance scheduling on its nuclear plants and for authorizing capital spending. Ending the mind-numbing complexity that goes with those tasks, he says, will "let employees do their jobs better with a little less fuss." Artificial intelligence, built in the image of its creator, is a worthy servant indeed.

By Larry Light, with Chris Welles, Suzanne Woolley, and Leah Nathans Spiro in New York

p. When someone enters the number for a store, the computer at the mistake. "The expert system check each lease," says Fields. Computers make financial planning more flexible than before. Take Corp. Until two years ago, the giant's seven-member salesing team used a hodgepodge of s to do their work, ranging from and paper to computer sheets. They started on the recast in mid-1990. Now, using an expert system, gave them the luxury of until October to start on B plan. "We're trading in on electronically, instead of around pieces of graph paps Thomas F. Applebee, a team member.

new system lets Xerox pro-free years out; previously, recast team could only man- next 12 months. And it tly analyzes actual results the forecast, updating it. , the time saved allows the eam to consider how fac- side their own company ffect it, such as inflation or performances. Elsewhere in pany, expert systems give on marketing: how new s move vs. older ones, how ductions will impact sales, mpensation changes can motivate salespeople.

g these programs is far sy. Xerox has spent the r working on one aimed at

know things about the business that you couldn't possibly know." Nevertheless, Fields applauds the power shift because the rank and file now can respond in an instant. If a problem crops up, he says, "they're probably in motion about the same time as I'm finding out." Freedom from daily minutiae, he adds, could change the role of the CFO, making it less tactical and more strategic.

'The highest and best use of technology is to get people dealing with people. We're trying to get all the paper functions obliterated'

RANDALL K. FIELDS
Mrs. Fields Cookies Inc.



WHERE NEURAL NETWORKS ARE ALREADY AT WORK

PUTTING AI TO WORK IN THE MARKETS



In the world of finance, anything that provides even a slight edge over rivals can mean millions in extra profits. So investment pros are turning to gurus offering exotic computer technologies such as neural networks and genetic algorithms. The following stories show how some big Wall Street firms and small-time investors are exploring and sometimes adopting cutting-edge artificial-intelligence techniques, many of which have proven their mettle in such fields as aerospace and gambling.

FROM AEROSPACE TO ROCKET SCIENCE

Through much of the 1980s, Troy Nolen helped create top-secret military software. Hired by a major defense contractor, he worked on Air Force programs for guiding the flight and battle patterns of the YF-22 fighter. The software, running on five on-board

computers, had to make split-second decisions based on data from ground stations, radar, and other sources. Plus it had to predict what the enemy planes would do, guiding the jet's actions accordingly.

These days, Nolen, 48, applies what he did for the military to the world of finance. The head of his own consulting firm, New Hampshire-based Norad Inc., he spends weekdays commuting from a houseboat in New Jersey to the Wall Street offices of Merrill Lynch & Co. His assignment: Develop a system to accurately set daily prices for more than 1 million corporate bonds. Merrill needs to determine current trading values for all of those bonds every business day between 4 p.m. and 5 p.m. Like the YF-22's software, the bond-pricing system must sift through reams of data from many sources and make swift judgments. "It's the same type of problem," Nolen says. "Only instead of pilots, we have bond traders."

Software has long played a big role on Wall Street. Until recently, however, computers were used mainly to crunch numbers. At the big brokerage houses, the chief technologists, known as rocket scientists or quants, are crack mathematicians. They know how to derive equations for setting bond prices or predicting market performance. But using those techniques in isolation is "the old way," says Tom Murphy, the Merrill vice-president who hired Nolen. A new breed of rocket scientists is adding artificial-intelligence methods for much smarter and more precise ways of predicting the market.

Perhaps the most accepted of these new techniques is so-called neural networks. Nolen is building a neu-

ral net that runs on a parallel-processor "brains" to attack a problem. Modeled after the complex patterns of the human nervous system, the software searches for patterns in vast sets of data. For instance, the software comb through information on how a certain bond has performed historically, then take a look at economic conditions and the fluctuations of barometers, such as U.S. Treasury bills. Over time, it learns how different combinations of factors are likely to affect each bond's value.

SURVIVAL. Nolen is most excited about a technique called genetic algorithms, which is based on the idea of survival of the fittest in a Darwinian universe where only the fittest survive, such software procedure rejects formulas that don't work. The system in the right direction. Used in bond-pricing models, Nolen compares such algorithms to survival of the fittest in the body. "Only the fittest live," he says. Merrill's Murphy is planning on Nolen to add this technic-



Much as the human body's survival mechanism lets 'only the good cells live,' the technique known as genetic algorithms rejects formulas that don't work

TROY NOLEN
Norad Inc.

net. "If you don't use all these
ues together," he says, "you
et the right answers."
ill is not alone. Shearson Lehman
rs Inc. has been training its own
net to help its traders forecast
patterns. A decade's worth of
al data was used in the software.
ree years now, the program has
managing its own small portfolio.
he software can "learn" from its
es, it gets better over time: The
ear, it lost money, but it broke
the second and turned a profit in
rd, says Stephen P. Gott, Leh-
chief technology officer.
next challenge at Lehman is to
s to understand not just numbers
o the significance of news stories.
an English-language-recognition
neural nets are being trained to
nancial news stories and decide
ey affect different investments.
tance, if the President makes a
ent on the budget deficit or the
ts interest rates, what will that
o the price of IBM? "We haven't
t licked yet," Gott admits.
ct, these software techniques are
perimental. At Merrill, the new
icing system isn't scheduled to
until November. The only telltale
at any of this software is begin-
o rake in big money will come
he people creating and using it
p. It's kind of like military se-
Nolen says. "People who are hav-
ccess don't want anyone else to
about it."

FROM OTB TO OTC, WINNING RECORD

Murray Ruggiero claims to have
put himself through college by
betting the horses. As a student
ern Connecticut State University
put his money down at off-track
parlors four nights a week. His
as not to win big on long shots
devise ways to consistently spot
ts that would provide modest re-
His all-time favorite: a horse
Doc Fella, which ran in the mon-
50 races in a row. Instead of
to win, Ruggiero would bet the
o show. For a year, it was close
re thing, and Ruggiero would col-
out \$1.20 for every dollar he wa-
for a return of 20%.

computer science major, Rug-
ised what he was learning in
o figure out how to improve his
winning. He developed a crude
system program that ruled out
that couldn't win, based on past
ance and other data. The pro-
cluded rules such as: "If a trot-
th less than \$20,000 doesn't race

in more than a month, it cannot win."
Later on, he devised a neural network
program called Dr. Trot that was able to
predict winners in 38% of races, he
claims, as compared with 30% for most
professional handicappers.

BLOODHOUND. In 1988, Ruggiero co-
founded a New Haven software compa-
ny called Promised Land Technologies
Inc. With his days at the races behind
him, the ambitious 29-year-old's tiny
startup is now focusing on more upscale
forms of gambling: futures, options,
bonds, and commodities trading. The
five-employee compa-
ny's first commercial
program, called Brain-
cel, has been pur-
chased by about 1,000
people, many of them
small-time investors
who like the fact that
the \$249 software
works along with popu-
lar spreadsheet pro-
grams including Mi-
crosoft Excel and
Lotus 1-2-3.

While Braincel may
be relatively simple to
learn, it won't accom-
plish much—until it is
trained. Like a blood-
hound, it must be
shown what to look
for. As it is fed data,
it spots patterns. "It
can find subtle rela-
tionships in data,"
says Dan Williams, a
spreadsheet product
manager at Microsoft
who reviewed the
product.

Braincel, for in-
stance, endeavors to
predict when the Stan-
dard & Poor's 500-stock index is about to
reach a weekly or monthly high. It does
this first by checking each day's opening
and closing prices: If the prices are get-
ting closer to each other, and several
other less obvious market patterns occur
at the same time, a high may be immi-
nent. The neural net makes and recon-
ciles these calculations based on past
experience.

NO NOISE. One customer, a Springfield
(Mo.) business-school student named
John Deatherage, uses Braincel for trad-
ing option contracts on the S&P index.
Along with a new Promised Land com-
panion program called FuturesBuilder,
Deatherage created a neural network to
model the index' fluctuations. He says
the software reduces his risk and boosts
his confidence. "It's not a crystal ball,"
he says. But he adds that "if the neural
net says to get out of the investment, I
get out."

The trick, says Ruggiero, is that the
neural net knows how to "filter out the
noise." In other words, it can learn when
a drop in the market is just a random
blip—mere "noise"—or whether it sig-
nals a real downward trend. Many inves-
tors rely on the market's moving aver-
ages to filter out the noise. But five-day
averages, for instance, are misleading.
If you are looking at the week's average
on Friday afternoon, your freshest data
point—Friday's closing point—is diluted
by the older data in the average. Brain-
cel, Ruggiero says, can help eliminate



The software isn't a crystal ball: 'If anyone
really had something that
could predict the S&P a month from today,
they wouldn't be selling it'

MURRAY RUGGIERO
Promised Land Technologies Inc.

the problem by predicting what will hap-
pen on the following Monday or Tues-
day, creating a predictive average.

So far, Ruggiero has had a difficult
time selling to the big-time investment
houses. "It's hard to show auditable re-
sults," says Microsoft's Williams. Rug-
giero claims that Braincel has proven
itself in trading futures for 30-year
Treasury bonds. From March, 1991, until
July, 1992, the software's suggestions
would have given an investor an annual
return of 292%, he says.

But as in horse racing, there's no such
thing as a sure thing. Ruggiero's soft-
ware can only offer enlightened advice
based on a detailed understanding of the
past. "If anyone really had something
that could predict the S&P a month from
today, they wouldn't be selling it," Rug-
giero says. "They would be retired and
living in Tahiti."

By Evan I. Schwartz in New York



CHAOS HITS WALL STREET —THE THEORY, THAT IS

AN ARCANE MARKET SYSTEM IS MAKING WAVES

Ronald K. Brandes is president of Braddis Associates, a consulting firm, and he is trying to explain the most fascinating new way to extract profits from the discordant forces of the financial markets—chaos theory. So he does what any chaologist would do under similar circumstances: He lights a cigarette and places it on an ashtray. "Look at the smoke," he says. "See how it rises." It starts off in a straight line,

only to diffuse swiftly into turbulence. Disorder. Chaos.

"I'm going to tell you the secret of life," the beefy, 39-year-old Brandes confides. He leans forward in the basement-den-office of his Smithtown (N.Y.) home. "Existence is the struggle against entropy—the struggle against disorder."

GLAMOUR. Welcome to the world of chaos theory, the cutting-edge mathematical discipline aimed at making sense of the ineffable and finding order among the seemingly random. Not surprisingly, chaos theory has come to the kingdom of disorder, Wall Street.

Chaologists are hardly receiving a warm welcome on the Street, where they are viewed with near-universal be-

wilderment. Still, chaos theory is a stay and is not likely to remain in obscurity for very long. For one thing, it is the only really new way of looking at markets since the mid-1950s when academicians developed portfolio theory. Chaologists also have an aura of high-tech glamour because their complex computer programs frequently require the use of high-speed computers and neural networks to mimic the human brain.

But most important, chaologists see the potential to revitalize the management industry. That's because chaos theory turns portfolio theory on its ear by tossing out its central tenet: that investors act rationally and

CHAOS THEORY AND PORTFOLIO MANAGEMENT: SOME KEY CONCEPTS

LOWING THE MARKET'S ES REQUIRES NEW MATH

Chaologists believe
nce markets are a com-
nonlinear system,' they
e analyzed by using
s—a mathematical
at describes complex
s

are efficient. In place of those
it installs a more alluring idea:
s can actually beat the market.
controversial discipline is garner-
nall but growing body of adher-
rticularly among "quantitative"
managers, who are mathemati-
clined and already use sophisti-
computer models to guide their
ents. Chaos theory also has a
constituency among market
ans, who chart price and volume
the belief that past trends sug-
ure action.

ologists, the patterns of the fi-
markets are akin to natural sys-
uch as a tropical typhoon or the
of a river basin. The reason for
larity is almost self-evident but
iously difficult to quantify—hu-
ture. Warren Buffett provided
ended perspective on chaos then
en he observed, quoting famed
and investor Benjamin Graham,
market behaved as if it were "a
amed Mr. Market... a man with
e emotional problems." At times,
noted, "he feels euphoric and
e only the favorable factors,"
t other times "he is depressed
see nothing but trouble ahead
n the business and the world."
heory tries to put numbers be-
se sentiments.

adox quants, of course, also use
l computers, and they also build
f market behavior that take into
a host of relevant factors—
arnings ratios, dividends, interest
nd so on. The crucial difference
them and chaologists is in the
used to construct these models.

COUNTRY. Chaos theory came to
reet like many other financial in-
s—via academia. Its intellectual
nings were set forth in 1963,
mathematician at the Massachu-
stitute of Technology, Edward
mused on the frustrations of
forecasting in the *Journal of*
spheric Sciences. Lorenz noted
ther predictions were almost in-
inaccurate because of tiny vari-
the way data were measured.
ie, these tiny glitches were mag-

MARKETS ARE ANALOGOUS TO NATURAL PHENOMENA

Chaologists are using statisti-
cal stratagems that have
been developed over the
years to study social and nat-
ural sciences—principles
used to gauge the timing of
such natural events as over-
flowing rivers and sunspots

THE STOCK MARKET IS NOT EFFICIENT

Chaologists insist that the no-
tion of 'efficient markets,' in
which market prices instant-
aneously reflect all public infor-
mation, is a myth. The reason:
Investors interpret informa-
tion haphazardly and irration-
ally

PRICES DO NOT MOVE IN A 'RANDOM WALK'

Under the efficient-market
theory, prices change only be-
cause of new information.
Chaos theoreticians believe
the 'random walk' is wrong
and that markets move in a
more complex, but under-
standable, fashion

nified tremendously. Lorenz' observa-
tions went unnoticed until 1975, when
another mathematician, James Yorke,
expounded on the subject in the *Ameri-
can Mathematical Monthly*. Yorke's
work was the foundation of modern cha-
os theory.

Actually, the term "chaos" is a misno-
mer. To devotees, natural systems and
the markets aren't chaotic in the sense
defined by Webster: "a state of utter
confusion." On the contrary, chaologists
maintain that things that often seem
random are really following their own
set of rules. One of these rules is that
they are, as Lorenz observed with
weather, "feedback systems"—what
happened yesterday is having influence
today and, combined with what happens
today, will influence tomorrow.

If the market is a feedback system—
as chaologists maintain—standard por-
tfolio theory is wrong. It holds that
prices reflect all publicly available infor-
mation. Any change in the stock price is
caused by a change in the information.
There's a direct chain of causality—what
mathematicians refer to as a "linear"
view of the markets. But chaos theory
holds that, as feedback systems, mar-
kets are "nonlinear"—that is, things
don't happen one by one in a chain of

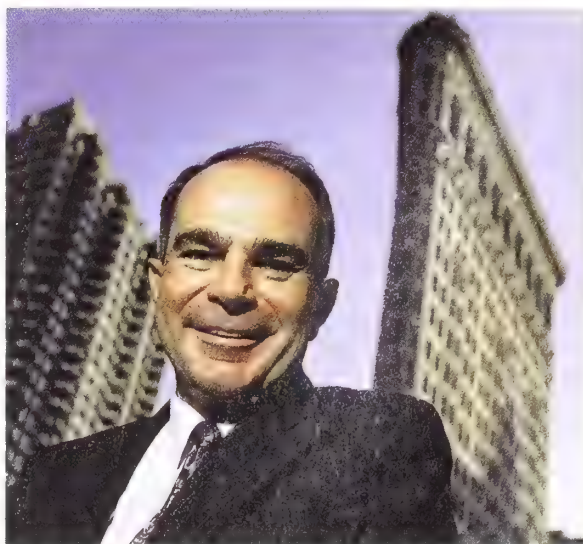
events. Markets, chaologists maintain,
assimilate information in an inconsistent
manner—in "clumps," so to speak.

To put these theories into practice,
chaologists employ concepts of higher
mathematics used to model complex nat-
ural phenomena as well as advanced
computers with feedback systems. At F.
Martin Koenig Advisors, a New Jersey
money-management consultant, chaos
theory is used to construct "matched"
portfolios of long and short positions, a
market-neutral strategy aimed at gain-
ing a premium over the Treasury-bill
rate of return. Koenig's head of tactical
asset allocation, John W. Scott II, uses
chaos theory to combine macroeconomic
and monetary factors in constructing in-
vestment portfolios. The aim, he says, is
to assess market risk accurately, not to
predict the future.

WEAK SPOT. At Braddis Associates, a
chaos pioneer, Brandes, too, is wary of
claims that chaos theory can predict the
markets—though his view that chaos
theory can precisely gauge the present
represents only a shade of difference.
Although Brandes waxes rhapsodic on
the theory of chaos investing, he quickly
turns reticent when the conversation
turns to practical applications. And what
he is willing to say about the nitty-gritty

While chaologists
have some
'powerful ideas'
that are worth
pondering, on the
whole their
theory is 'more
emotional than
analytical'

JOHN BRUSH
Columbine Capital
Services





'Existence is the struggle against disorder'—the challenge is to make sense of the ineffable and discover the pattern that links the seemingly random

RONALD K. BRANDES
Braddis Associates

umbine Capital vices. And Arth Bahr, executive president of GE Electric Invest Corp., observed end of the day' ceedings that "presentation we up in [GE co headquarters], so the people would 'Now speak Eng me.'"

Such skepticism understandable. trustees and fundagers who might computer models chaologists are ably unwilling to money into chaos systems based on ries that they don't understand times, chaos t presents itself kind of surefire r maker. And that folks with conver investment me wary. "The assu is that once you er a nonlinear m will work better the others," say

of chaos investing seems far from compelling. For example, one of his indicators of the risk of investing is what he calls a "fractal-fill ratio"—apparently little more than a run-of-the-mill technical indicator. He boasts "advanced return strategies" to pick stocks, based on an undisclosed, "proprietary" system that analyzes the way companies use their cash flow. He has developed an agricultural index that, he says, demonstrates a perfect inverse relationship with bond prices. And his "core" portfolio is prosaic—a baker's dozen of large-cap stocks such as AT&T, Du Pont, and General Electric. "People should always be in the stock market," he notes, "and own important companies."

That's hardly a revolutionary sentiment. Indeed, translating theory into practice is one of the glaring weak spots of chaos theory. So it's not surprising that chaos theory has yet to prove itself to the satisfaction of the people who really count—chief financial officers, corporate treasurers, and the trustees of pension funds. The details of building quantitative stock portfolios with chaos theory—its most promising application—are excruciatingly complex, even for the mathematically astute.

Chaologists are trying to break down

the investment community's resistance to their ideas. On Oct. 15, the New York Society of Securities Analysts sponsored a full-day seminar that brought together chaologists, analysts, and mainstream institutional investors. Some arrived brandishing copies of *Chaos and Order in the Capital Markets*, the recently published primer that is fast becoming the bible of the market chaologists.

'SPEAK ENGLISH.' If the goal was to sell chaos theory to the uninitiated, it appeared to be something less than a smashing success. Investment pros who had not been previously converted seemed unconvinced by the chaologists' presentations. Among other things, they seemed nonplussed by Brandes' refusal, in response to a question from one participant, to define his fractal-fill ratio as anything but "measuring an entropy that is a quiet before the storm." That prompted Gary L. Gastineau, a futures and options expert at Swiss Bank Corp., to observe later that "very few people, if any, are willing to accept a black box." After a complex, math-laden talk by one chaologist, participants expressed bewilderment. "If anyone understood 10% of what [the speaker] said, would he please stand up?" quipped John S. Brush, a leading quant who is president of Col-

umbine's Brush. "and folks like u have struggled for years with models will be put out of business

As far as Brush and other quant it, chaos theory is intriguing but u en. Chaologists, he admits, have "ful ideas" worth pondering. Much rest is dismissed by Brush as emotional than analytical."

As far as Brandes is concerned emotion is warranted. Japanese ties firms, he believes, take chaos seriously. He likens the situation Wars—the competition with the S not the movie, although when B speaks it's hard to tell the difference. "Let's start off by talking about and evil and sin," Brandes exhorted visibly unimpressed money managers. "Evil is disorder, and good is order."

Perhaps. But before chaologists burst out of the realm of theory into reality, they are going to have to some results. They must persuade pension funds to put money—and it—where their theories are. And are unlikely to try out chaos unless chaologists have established a track record. That's what's known as a "22." Not as intellectually stimulating chaos theory, but no less valid.

By Gary Weiss in New



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BANKING PULLS BACK FROM THE BRINK

Why predictions of doom aren't likely to come true

For the past year or two, there have been frequent warnings of a cascade of bank failures that would rival the savings and loan fiasco. One recent book, *Banking on the Brink*, by Cleveland State University professor Edward W. Hill and consultant Roger J. Vaughan, said that more than 1,000 banks were insolvent and another 1,000 were on the "lip of insolvency." These doomsayers have found a high-profile spokesman in Ross Perot, who used the final Presidential debate on Oct. 19 to raise the specter of a huge taxpayer bailout. "Right after Election Day this year, they're going to hit us with a hundred banks," he warned. "It will be a \$100 billion problem."

Perot's prediction appears badly overstated. True, starting Dec. 19 federal regulators will be required to close institutions that don't meet strict new capital standards. But the real "December surprise" may turn out to be how few institutions will be shut down. Banking consultant Ferguson & Co. estimates that no more than 55 banks, with total assets of \$17 billion, are at risk—and the Bank Insurance Fund's exposure is probably less than \$3 billion.



Why no meltdown? Look to the Federal Reserve, which is largely responsible for engineering an apparently successful rescue of much of the banking industry. With interest rates driven down to the lowest levels in three decades, banks are enjoying a widening spread between what they pay for funds and what they charge for loans (tables). As a whole, the income of the nation's 12,000 banks

soared to a record \$15.7 billion in the first half of 1992—54% more than the same period a year earlier. "As long as interest rates stay low, a lot of banks will get healthy in a hurry," says Andrew C. Hove Jr., acting chairman of the Federal Deposit Insurance Corp.

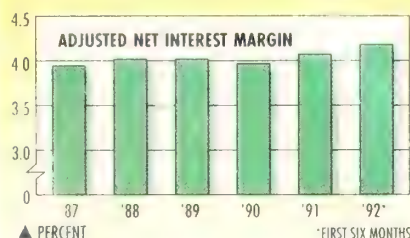
Banks' failure to pass interest savings through to borrowers undoubtedly contributed to a sluggish economy this year. But banking regulators, conscious of the need to bolster institutions' balance sheets, made a concerted effort to jawbone those rates. "We've been encouraging banks to be healthy, but we're happy to let market forces work on the price of lending," says Treasury Under Secretary Jerome H.

BULGING POCKETS. The resulting upturn sent bank stocks soaring. The turn has enabled even struggling banks such as Citicorp and Riggs National Corp., to raise enough new equity to bring capital ratios to the highest since 1966. As a whole, banks have pumped up \$20 billion in new equity in the past two years. "Whatever banks can be paid for out of the country's own pocket," says James J. Mott Jr., president of New York City-based Keefe, Bruyette & Woods.

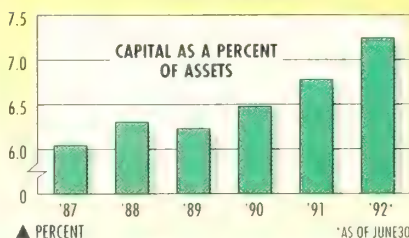
Of course, wider margins don't help for every ailing bank. Many insolvent banks have been taken off the critical list through private deals put together with the encouragement of regulators. Financial Inc. and Ameritrust were both acquired by stronger banks eager to expand their consumer franchise.

At other institutions, regulators have been more aggressive. Midland was told to replace its management and slash assets by 35%. The New York holding company sold its New York and Pennsylvania banks, as well as other units. That enabled Midland to cut corporate payroll by 28% and record its first quarterly profit in years. "The worst has passed for them," says Bruyette analyst John B. Work. "The company is a survivor."

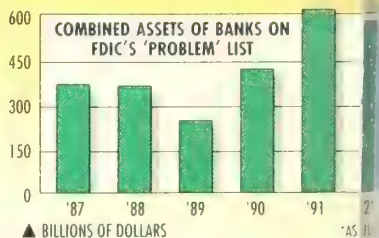
BANKS ARE EARNING MORE...



...AND REBUILDING CAPITAL...



...BUT 'PROBLEM BANKS' ARE STILL A WORRY



DATA: FEDERAL DEPOSIT INSURANCE CORP.

industry's improved condition appear to have taken taxpayers off the books. A year ago, the FDIC predicted that banks, with assets totaling \$80 billion, would fail in 1992. Regulators expect 110 to 120 failures—and expect an increase next year.

'SOUP.' To be sure, the banking industry isn't completely out of danger. Total bad loans are now lower than in the crisis began in the late 1980s, but many institutions remain vulnera-

ble to a further decline in commercial real estate. "Another drop in the economy, rise in rates, or need to take deeper discounts in real estate will cause a number of banks to go back into the soup," says consultant Edward E. Furash. "We need another 18 months of low rates." And California, where the recession hit late and has lingered longer, is a special problem: A quarter of the state's banks are still losing money.

The long-term problems facing all

banks persist, though. The industry's retrenchment and the growth of competitors have eroded their plum businesses, perhaps permanently. And banks still must live within a regulatory structure better suited to 1935 than 2005. But their recent improvement in health means that, despite the warnings of doom-sayers, most banks will still be around to see the new century.

By Dean Foust, with Mike McNamee in Washington and Geoffrey Smith in Boston



SCUDDER
TO A
RANKING

SCUDDER R SCOOTs

Turner will be running
funds at Putnam

While vacationing in the south of France this past September, Mark Turner, lead manager of Scudder, Stevens & Clark Inc.'s bond funds, received an intriguing offer from an executive with archrival Putnam Cos. Could Turner meet with E. J. Lasser, Putnam's chief executive who was then visiting Paris? Could.

On Sept. 16, Turner resigned from Boston-based Scudder to become managing director and chief investment officer of Putnam's global fixed-income division, managing \$4.3 billion in assets. Putnam's approach "showed Mark early on that serious Putnam was to have him on the team—to have the original solicitation made by the chief executive in a

chateau in the south of France," says Gary N. Coburn, chief of Putnam's U.S. Fixed Income Investments and Turner's new boss.

Why Putnam, another Boston-based firm, was so anxious is no mystery. Although largely unheralded, Turner, 40, has one of the more impressive performance records in bond-fund annals. Working with Scudder's crack research department, he led the no-load \$750 million Scudder International Bond Fund to a No. 1 ranking in its category for the two-, three-, and four-year

periods, according to Lipper Analytical Services Inc. For the four-year period, Turner's fund had a cumulative return of 83.09%, well above the group average of 53.74%. This June, the fund got the first five-star rating given in the world bond category by mutual-fund rating service Morningstar Inc.

"This guy has shown staying power in an area of investing—fixed income—where people have a secure sense, but where it's very easy to take a big hit," says Lipper international editor William McBride.

CONTRARIAN WAYS. Even more spectacular, Turner humbled competitors during the European currency crisis in September. While the Van Eck World Income Fund and the T. Rowe Price International Bond Fund fell 6.95% and 4.71%, respectively, for the three-week period ended Sept. 24, Scudder's International Bond Fund was basically flat, down 0.25%. The overall average for world bond funds for the period was -2.05%, a big decline for bond funds.

Turner managed to

avoid the carnage by staying away from some of the high-yield bonds denominated in such currencies as the Italian lira that other managers had stocked up on. And he hedged the currencies in his funds individually, rather than using the German mark as a proxy and expecting that the other currencies would remain in a narrow band. The "proxy" strategy came unglued when the lira, British pound, and other currencies plunged against the German mark.

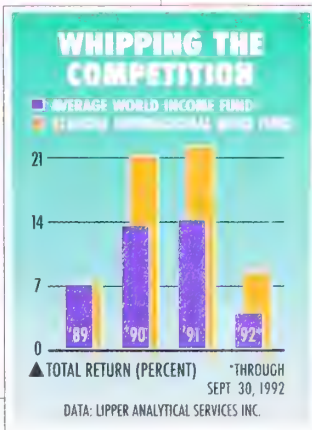
'INSTANT DRAW.' Turner, who was born in England, has always been venture-some. You can tell by the way he chooses to relax: skiing expert runs and sailing on high seas. Before joining Scudder in 1989, he was managing director for fixed income with AIG Global Investors Inc. in New York and worked in London with Citibank's investment-management group for five years before that. His very first entry into the working world: helping run a record store owned by the Moody Blues.

Turner's decision is a coup for Putnam, which is considered more aggressive than Scudder. "He's an instant draw and gives their whole effort instant credibility," says Lori Lucas, an analyst with Morningstar. Like many fund families, Putnam has increased international offerings in recent years.

Turner will oversee the investment performance of global institutional and retail fund accounts. Putnam is stressing the institutional accounts, its fastest-growing asset class. "Our global fixed-income product is our centerpiece," says Thomas J. Lucey, Putnam's chief of institutional marketing.

After a few weeks at home with his wife and two young sons, Turner will start at Putnam on Nov. 2. He can't wait. "It's hard to be away from the markets," he says. "It must be like the feeling you have if you're a pitcher and you've been put in the dugout. You want to get back in the game." Especially if you're on a winning streak.

By Suzanne Woolley in New York



Commentary/by Judith H. Dobrzynski

AN OCTOBER SURPRISE THAT HAS SHAREHOLDERS CHEERING

Oct. 15, 1992: Note that date. It won't be as momentous as, say, Black Tuesday, 1929, or Bloody Monday, 1987. But in a month fabled for weighty events in the business world, that sunny Thursday in Washington should go down as a red-letter day—at least in the annals of shareholder activism.

And that's not because of the new Securities & Exchange Commission rules on the disclosure of executive compensation—which got all the front-page headlines and landed Chairman Richard C. Breeden on network television. Rather, it is the SEC's new proxy rules that should prove more far-reaching. For nearly 40 years, shareholders unhappy with the way companies operate or perform have been muted by federal rules that favored management. Now, the SEC has handed shareholders a megaphone. Moreover, says John C. Wilcox, chairman of proxy solicitors Georgeson & Co.: "This is a huge psychological boost to shareholder activism and to the corporate governance reform movement."

VOTING POWER. Under the rules, pension funds, financial institutions, and individual investors alike can now sound off in several new ways. They can talk to one another about their stakeholdings without meeting burdensome filing requirements or getting clearance in advance from the SEC. They can announce how they will vote on proposals and on directors, with an eye to swaying others. They can more easily vote for, or run as, individual board members that are not part of management's slate. And they can gain access to corporate shareholder lists. As a result, shareholders will be able to muster support for their views without actually soliciting proxy votes. Better yet, since they are now able to confer, they can go to management and boards as representatives of a block of shareholders before an issue turns into a confrontation.

These changes raise two questions: What will investors do with their new power, and how will management react? If both parties act responsibly, the SEC may have launched a positive new era in American management-share-

holder cooperation. After all, the goal of most activist investors—largely the huge public pension funds that find it costly to move in and out of stocks—is getting better corporate performance. That's hardly something managements or boards oppose.

In the past few years, some activist institutions have tried discussing matters first, before confronting managements with shareholder resolutions.



Some companies agreed; many did not. Ideally, chief executives should now be more willing to listen to investors. Since better-informed investors may be more patient providers of capital, the CEOs of poor performers may even want to initiate a dialogue with major investors to apprise them of their predicament and their strategy for resolving it. There should be room for "blunt discussions," as Harvey J. Goldschmid, professor at Columbia University School of Law, puts it.

Investors, meanwhile, should be better prepared for such talk. Since many big funds hold stakes in hundreds of companies—far too many for their staff to know well—they should share information, divvying up targets for re-

search and passing along their assessments. And shareholders should continue to narrow their focus to performance issues, instead of ideological items, such as forcing the chairman and CEO jobs to be split, as they did. That way, shareholders and executives are at least talking the same language. "Now that our criteria are performance-based, companies are coming to the table much more openly," reports Sarah A. B. Teslie, executive director of the Council of Institutional Investors.

FINESSE. But what if investors have no satisfaction from their discussions with executives? They should again coordinate as they exercise their activity: seeking meetings with independent directors, filing shareholder resolutions, and organizing "aye" votes for those resolutions and, finally, "nay" votes against directors. More difficult steps include nominating a representative to a board and voting a slate of dissident directors.

Corporate governance experts are divided on whether such extreme tactics will now be more common or less. But they agree that things should not sink to that level. Because they function best as collegial units, adversarial ones, minority representation may not be productive. In any case, it can be finessed. A CEO could, for example, move major board activity to its executive committee, from which the dissident is excluded.

It's all the more important, then, that executives, directors, and investors respond positively to the new proxy rules. Nearly 60 years ago, the bible of value investors, Graham and Dodd's *Security Analysis*, said that "the choice of a common stock is a single act, its ownership is a continuing process." Until Oct. 15, the old rules made responsible ownership difficult, if not impossible, for most shareholders. Executives often reacted against shortsighted investors who sold out too soon and forced them to cut their investment horizons, but they gave investors no other way out. In addition to the so-called power of exit, and thanks to the SEC, they have the power of voice.

G. MARCIAL

YING THE RKET IF TON WINS . . .

As a veteran Wall Streeter, Michael Metz is aware that the market is still pretty edgy, precisely because it's trying to adjust to a victory. Metz, who is "a self-proclaimed liberal-Democrat and not inclined to admit it," expects Clinton. But he isn't rushing to design a strategy for a Clinton era.

Begin with, Metz, chief investment-strategist at Oppenheimer, expects that Clinton will be able to exceed 50% of his campaign promises. Metz dismisses the growing notion that the market will collapse once the president is elected. "There will neither be a market debacle nor a big crash for investors in 1993," says Metz. "There will be a so-called inside market where the Dow Jones industrials will move themselves within a range." He expects that the Dow in the first year of Clinton Administration will trade between 3000 and 3500.

Metz means if investors are to make money, they'll have to do it through astute stockpicking. Among his picks for next year are Merrill Lynch, Newmont Mining, and Teléfonos de México.

U.S. Merrill, the nation's leading securities brokerage house, "is one of the most undervalued issues around in the company's rosy outlook in 1993," says Metz. He expects the company to benefit from the projected increase in the national savings rate, the increase of the individual investor to the market, and the huge backlog of IPO offerings waiting to come to market.

Metz still is a buy, says Metz, because investors still think of it as a cyclical stock when it's really a growth stock. Merrill earnings rising to \$6.75 this year and to \$7.50 in 1993, up from \$6.03. Metz believes the stock, now at 54 a share, will hit 70 by year-end.

Newmont is Metz's play in what he expects will be a dramatic rise in the price of gold. The mining company is 1% of Newmont Gold, the largest producer in North America. He expects gold prices to rise next year from \$350 an ounce to \$450, mainly because he believes the former Soviet Union has liquidated its hoard and



METZ: NO DEBACLES OR THRILLS FOR '93

suffers from declining production. The continuing turmoil in Russia, the bloodshed in the former Yugoslavia, and the problems facing Germany and the rest of Europe bode well for the demand for gold, says Metz. He expects Newmont's earnings to jump from last year's \$1.38 to \$2 a share this year and \$3 in 1993. He thinks the stock, now at 47, will hit 65 by next year.

Teléfonos de México is Metz's top candidate to take advantage of the Latin American boom. He says this Big Board stock is still very underpriced. He expects earnings of \$4.70 this year and \$5.60 next year, vs. last year's 40¢. Metz expects the stock, now at 49, to hit 55 to 60 in 1993.

... AND TRADERS THINK HE WILL

Few Wall Streeters are Michael Metz-style liberals. But judging by what was said at the Oct. 18-22 convention of the Security Traders Assn. in Boca Raton, Fla., top traders, like many other Americans, are convinced of a Clinton victory and are ready to adjust to the change. "Most of us are pretty well fed up with the status quo," says Security Traders Assn. President John Watson III. Furthermore, Watson thinks the stock market will do well under Clinton and hit new highs in 1993.

The traders are seeking stocks they believe will benefit from a Clinton Administration—namely, high-tech stocks, says one big trader. Why? Because Clinton wants to once again make the U.S. the world's leader in technology.

Construction and engineering companies should prosper under Clinton's proposal to increase infrastructure spending. Pollution control and environment-service companies should do well because of stepped-up environmental programs. And some think the Democrats' efforts to contain health-care costs will be a boon for generic-drug companies.

IS THIS A WINNING NUMBER?

Some attractive market bets often look like pure gambling—especially the companies that are in the gambling business. Take GTECH. As a designer, manufacturer, and operator of lottery systems, including video lotteries, the company might seem to be a very risky proposition. Yet GTECH so far has produced nothing but handsome gains for investors who bought in when the company went public in July at 17 a share. Some savvy pros think the stock, already at 27½, will hit 40 within a year.

What's going on? State governments are increasingly turning to lotteries to raise revenues. GTECH, based in West Greenwich, R.I., supplies and operates lottery systems in 20 states and 7 countries, which gives it 68% of the U.S. market and 75% of the global market.

GTECH is also well-positioned to score in video-game lotteries—the fastest-growing segment of the business. Its major rival in video lottery terminals, Video Lottery Technologies, was recently removed by the Australian government from its supplier list. GTECH, a current supplier to Australia, will almost certainly benefit from Video Lottery's woes.

Analyst Kurt Feuerman of Morgan Stanley thinks that his 1993 earnings estimate of \$1 a share vs. 1992's estimate of 64¢ may prove low, in part because of the added business that could come from Australia. In addition, he thinks that GTECH's new game, Keno Club, will be a hit. GTECH markets the game in South Australia, Kansas, Oregon, and Rhode Island. Keno Club will be a gold mine for GTECH as more states sign up for it.

One big investor is betting on GTECH because he thinks California will sign on for Keno Club. Feuerman agrees: If GTECH gets a 5% share of the Keno game in California, it would add annual revenues of at least \$25 million and incremental earnings of at least 10¢ a share, figures Feuerman.

COMPAQ

HOW IT MADE ITS
IMPRESSIVE
MOVE OUT OF
THE DOLDRUMS

Eckhard Pfeiffer is a happy man these days, and it shows. In only a year as president, he has managed to restore the glitz to Compaq Computer Corp. Once the victim of price wars, Compaq is now the aggressor. Its low-cost ProLinea PCs, introduced last June, were an immediate hit, spurring industrywide price cuts and generating a three-month order backlog. In the company's older Deskpro lines, new models and lower prices have produced record sales. In August, Compaq branched out into laser printers and this fall brought ProLineas to Japan, undercutting market leader NEC's prices by 50%. Then it extended the price battle in the U.S. with cut-rate "servers" for PC networks.

No wonder Pfeiffer is happy. But not, repeat not, complacent. On the eve of reporting third-quarter earnings—the first to truly show the payoff of the new strategy—he sprang his October surprise: price cuts of as much as 32% across Compaq's already aggressively priced product line. The move, which Compaq said reflected the economies of scale it's achieving with its new high-volume strategy, brought its cheapest machine down to \$799 and is bound to provoke more price cuts. It also came just in time to upstage IBM's announcement of its belated entry into the bargain PC business (page 152). "I know that everybody out there wants to be where we are," says Pfeiffer.

SINISTER SPIRAL. Indeed, in remarkably short order, the 51-year-old German-born executive appears to have put Compaq back on top. But the industry that Compaq is striving to once again lead has changed forever—and has become far more dangerous. The reason: With constant pressure to cut prices, margins are plunging.

So, Compaq is leading the charge, but at a price. Gross margins are down almost a third, to 28%, and net margin, at about 5%, is half what it was in the old days (chart)—and may never rebound. Even if the company sets a new record of \$4. billion in annual revenues this year, as Pfeiffer says it will, Compaq's earnings will be less than half what they were in 1990 when sales were \$3.6 billion. That means Compaq could have less money for the research and development that gives its PCs an edge. And it means any missteps will be costly. "There is not a whole lot of room be-

TODAY'S COMEBACK

**LOWER
PRICES...**

**COMPAQ'S
PERCENTAGE
PREMIUM OVER
GATEWAY 2000**

AVERAGE 1992 SYSTEM PRICES

**...SHOULD
RESTORE
MARKET
SHARE**

**U.S. MARKET FOR
IBM-COMPATIBLE PCs
PERCENT**

DATA: INTERNATIONAL DATA
CORP., SANFORD C. BERNSTEIN
& CO. ESTIMATES



the guys losing money and us," Pfeiffer acknowledges. It was as if Compaq had much of a choice. A year ago, the company was jolted into that realization by its first-ever quarterly revenue slide and a belated marketing campaign to match such upstarts as Dell Computer and AST Research Inc. Co-founder Rod Canion had blamed the company's troubles as mainly the effects of the recession. As a result, he was unceremoniously fired and replaced by Pfeiffer. Pfeiffer had concluded that there was something more sinister at work—the kind of downward pricing spiral he had seen in calculators in the 1970s when he was a marketing executive for Texas Instruments. Canion could not be reached for comment.

As head of Compaq's enormously successful European division and later at Houston headquarters, where he became chief operating officer in January, 1991, Pfeiffer told

anyone who would listen that it was time to slash costs and stop losing sales to cheaper brands such as Dell. By focusing almost exclusively on improving PC performance, the company was ignoring broad chunks of the market. "The business we left behind was wide open to the competition, and they went after it with a vengeance," says Pfeiffer.

But the message didn't get through. Compaq's roots—it was founded by a group of TI engineers in 1982—and its meteoric rise as the most competent designer and builder of IBM clones made it hard for Compaq executives to grasp the change. They couldn't acknowledge that their PCs had become overengineered, overpriced, and an easy mark for cheaper clones from Dell, AST, Gateway 2000, and others. "The Canion line was that profit problems were due to the recession," says Andreas Barth, Pfeiffer's successor as head of the Munich-based European division. "The first thing Eckhard did when he took over was to lay down the new law."

The law according to Pfeiffer: Slash bloated costs, forget gold-plated technology, except where it really makes a difference, and, most important, redirect Compaq's vaunted engineering to building high-quality computers at low prices. "The call to action was clear," says Ross Cooley, head of Compaq's North American operations. For Cooley, a defining moment came last January, when Pfeiffer declared that, no matter what, Compaq would match any manufacturer in the world on price. After that, says Cooley, "none of us ever looked back."

Now nobody has the time. With 41 new products announced in June alone and an explosion in distribution channels—from 3,300 to 8,300 outlets worldwide—Compaq's unit shipments are leaping at a 40% annual clip, rebuilding market share, which had slipped from 5.3% to 4.5% last year (chart). In the third

quarter, revenues climbed 50%, to a record \$1.07 billion, and earnings hit \$49.4 million, beating even the rosier projections on Wall Street. The stock now trades near 40, far from its all-time high of 74¼ in early 1991 but a nice

bounce from the 22¼ of last December, and most analysts have switched to buy recommendations. "It's one of the great turnarounds in the world," says one of those analysts, Charles Wolf at First Boston Corp. "It is a rare example of a company that recognized a change in their environment and responded in the absolutely correct way."

LONG ROAD. The execution isn't nearly complete, however. It took only two years for Compaq to turn from the star of the PC industry to the goat. And Pfeiffer acknowledges that there's a lot to do to ensure that it doesn't happen again. "We have done phase one," he says. That involved two rounds of layoffs that cut the work force by 25%, to 9,000, lopping \$225 million off the annual payroll. "They're doing the right things for the time being, but they still have a hell of a long way to go," says Kimball H. Brown, analyst with International Data Corp. "We need to see six to eight quarters of growth before we can decide if they can keep it going."

And there are constant threats to the turnaround. IBM's new low-end ValuePoints were quickly repriced to match Compaq's Oct. 20 cut. ValuePoints also challenge Compaq on technology with an IBM-built chip that runs faster than



TOMORROW'S CHALLENGE

MARGINS WILL REMAIN UNDER PRESSURE...

NET OPERATING MARGINS PERCENT

...SQUELCHING EARNINGS GROWTH

NET EARNINGS MILLIONS OF DOLLARS

COMPANY REPORTS, SANFORD C. BERNSTEIN & CO. ESTIMATES

the standard Intel Corp. chips used in ProLineas. In notebooks, long a Compaq stronghold, IBM is becoming more of a threat, too. Its new ThinkPad 700C, for example, has the largest color screen on the market. "The new ThinkPad is so good it's scary, and the ValuePoint will unlevel the playing field," says IDC's Brown. There are still intense pressures from the likes of Dell and Gateway. Compaq shipments may be up 40% a year, but Dell's are more than doubling.

While continuing hand-to-hand combat in the PC trenches, Pfeiffer is also plotting long-term strategy—Compaq's first. He turned to future planning as soon as he felt comfortable with the immediate situation. For the past five months, with help from the management gurus at McKinsey & Co., Pfeiffer has been putting in place a comprehensive long-range strategy. "The focus now is clearly on future strategy," says Pfeiffer. "This company is totally transformed."

Maybe not totally. The new "vision" is hardly radical. While other PC makers, notably Apple Computer Inc., are racing to build futuristic permutations of the personal computer such as handheld

"personal digital assistants," Compaq is sticking to its knitting. True, the company does have a PDA prototype, but, says Chairman Benjamin M. Rosen, Compaq's growth for the next five years "is going to come from our present area." The plan is to continue pursuing the corporate PC market with traditional products and use ProLineas to build a new high-volume business among small businesses and consumers.

FEW BELIEVERS. What's radical is how aggressive Compaq has become on price. "We threw our old pricing policy overboard," Pfeiffer says. "We are now pricing to market." In the old days, Compaq jammed all sorts of bells and whistles into its machines and priced them at or above what IBM charged. When rivals started matching those features—at lower prices—the strategy unraveled.

When Pfeiffer took over, hardly anybody believed that Compaq could survive in the new, low-margin climate, much less thrive. When he briefed analysts on the "New Compaq" early this year, they applauded his cost cuts but discounted predictions that he'd match Dell on price. They were astounded—as were

the competitors—when the ProLine emerged with an \$899 entry-level machine, priced below Dell's cheapest.

It was a neat trick for a company after setting growth records for a decade up in the 1980s, by 1990 was smugly on its laurels. Cosseted in an office park in north Houston, Compaq sprawled into 22 glass-and-steel buildings with gleaming atriums, hallways, paths, and sidewalks lined with flower beds. "A slickness came over Compaq," says a former employee. "Of a sudden, if you didn't have a red suspender, and these little slippers, you were nobody." In engineering, overkill seemed to be the rule. Compaq was one of the few PC makers to build its own power supplies, built casings—designed to withstand a fall off a mountain. The factory was built in eight layers of radio-emissions shielding where four would do. All this added up costs and tied up engineering but did noticeably little for performance.

"Success fueled good pay raises," says Pfeiffer. "We were in good positions. Compaq people were overpaid by that," says Victor Allison, a former engineering manager. "There was too much momentum from this culture when the market changed very quickly. Compaq could not adjust very quickly." **START SLASHING.** Finally, there was a choice. By 1991, the growth rate was shrinking. In a 14-hour board meeting on Oct. 24, 1991, Canion was even though he had just announced plans for layoffs and other cuts. An original investor, was convinced he needed a new CEO. Working with a group of Compaq engineers, a venture capitalist had started to develop a strategy to get Compaq into the PC market. Canion balked, and Pfeiffer was assigned the task of making it happen. "It's hard starting a company, but it's a lot harder re-starting a multibillion-dollar company," says Rosen.

Ten days after taking over, Pfeiffer told his executives the basic plan: slash costs by 35% to 50% and prepare Compaq to compete in every segment of the PC market—both on price and performance. "It was like a new election. People were going to be running. I couldn't have stayed around. Steven Ullrich, an engineer who was one of Compaq's first five employees, took at least five other top executives to their ID badges right away, including founder Jim Harris. For months, managers who did stay on were given every two weeks by Pfeiffer to ensure everybody got the message.

One of Pfeiffer's most important decisions was his approach to the new end product. He organized an independent business unit to tackle the



WHERE COMPAQ CUT OUT THE COSTS

DESKPRO 386/25M MODEL 60

- ▶ Modular design makes for easy upgrades, including microprocessor
- ▶ Five 32-bit expansion slots to handle high-performance add-ons
- ▶ More durable, heavy-duty, mechanical keyboard
- ▶ 240 watts of power for add-ons
- ▶ Audio board for sound
- ▶ Intel 386DX-25 chip, 60-megabyte Quantum disk drive

SUGGESTED LIST PRICE: \$2,744

PROLINEA 3/25Z

- ▶ Simpler, low-cost motherboard is reliable, but limits upgrades
- ▶ Only two 16-bit expansion slots, limiting hardware options
- ▶ Light membrane keyboard with fewer mechanical parts
- ▶ Standard 70-watt power supply
- ▶ No audio board
- ▶ Slightly slower Intel 386SX-25 chip, 40-megabyte Quantum disk drive

SUGGESTED LIST PRICE: \$1,152

Both systems have color monitor, MS-DOS 5.0, and one-year on-site warranty

DATA BYTE MAGAZINE, COMPAQ COMPUTER CORP

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't feel right," he recalls. From
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move. Sticking with the Compaq
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circuits to re-

duce the number of chips needed in each
ProLinea. An added bonus: Fewer chips
means less chance of faulty connections.
Computer magazines have given the ma-
chines rave reviews. "The ProLinea still
has what it takes in the important ar-
eas," say *Byte Magazine* reviewers
Steve Apiki and Tom Thompson. "Per-
formance is good, and its high level of
integration should make it a reliable sys-
tem." In other words, they conclude, "a
Compaq is still a Compaq, even for
\$1,000."

A BANG. The new ProLinea and Contura
lines, sold through mass merchandisers
as well as through computer stores,
started off with a bang. "By the last
week in June, everybody knew we had a
tremendous success on our hands," says
Cooley. "We were dancing in the halls."
By July, Compaq was outshipping both
IBM and Apple in the dealer channel.

"Demand has been awesome," says Ed-
ward R. Anderson, president of Compu-
terLand USA. Compaq's share of ma-
chines sold through the chain doubled
from a year ago, to 26%. The backlog is
so huge that Compaq missed its goal of
catching up by September, despite add-
ing a third production line in Houston
and Singapore. Now, Compaq says it's
building 200,000 ProLineas a month. It
expects to work off the backlog by
December.

To get manufacturing costs down at
the plants in Houston, Singapore, and
Scotland, Compaq had to rethink its pro-
cesses. It started building an entire sys-
tem on a single assembly line instead of
making the motherboard in one building
and the chassis in another. It stopped
testing every subassembly and now
tests a sample. All finished systems are
still fully tested. Most important, Com-
paq leaned on suppliers to cut prices,
which is why, when longtime partner
Connor Peripherals Inc.'s prices were
higher than Quantum Corp.'s, Compaq
made Quantum the main disk-drive sup-
plier and Connor only secondary. Com-
paq later sold its 20% stake in Connor
for an \$86 million gain.

Even competitors are impressed with
Compaq's resurgence. "Since June,
they're really back in there, being com-
petitive for the first time in two years,"
says Martin Slagter, vice-president for
European marketing for archrival Dell.
"I'd put them among my toughest com-
petitors now."

And the contest isn't just being fought
with the new ProLineas and Conturas,
says Pfeiffer. He admits he was worried



CONTURAS IN SINGAPORE: TO SAVE MONEY, COMPAQ NOW FULLY TESTS ONLY COMPLETE SYSTEMS

(TOP TO BOTTOM) PHOTOGRAPHS BY PETER SCHNITZER AGENCY; ALFRED HAMANN; P. JEFFREY

that customers who once paid \$3,000 or \$5,000 for a Deskpro would simply opt for a \$1,000 ProLinea. They haven't. "Our volume of all existing products is up dramatically," says Pfeiffer. "There's been practically no cannibalization. This comes as a very, very pleasant surprise." Generous price cuts on Deskpros helped. Donald W. Matto, manager of technical services at Chevron Corp., says he always liked Deskpro quality but had switched because of price. "Now that the prices are more competitive, we're buying again," he says.

The ProLineas, meanwhile, are picking up the customers that Compaq had left behind. By going into mass merchandisers, the company reaches consumers and small businesses. Compaq just tripled such outlets, to 600, signing CompUSA, Circuit City, and Office Depot. "We want to have our products where our customers want to buy them," says Gian Carlo Bisone, head of North American marketing. "We have to play on all the tables."

The latest move is into direct response. In November, six Compaq dealers will start, and within 60 days, Cooley says, Compaqs will also be sold in catalogues and via telemarketing—Dell territory. "I think Dell is very vulnerable," says Peter H. Jackson, president of Granite Computer Products Inc., a direct marketer that expects to sell \$100 million worth of Compaq PCs next year.

PATIENT BUYERS. To be sure, Compaq's longtime dealers aren't happy about the new competition, especially when there are shortages. "They've opened up other retailers while still not having product for their traditional dealers," complains Douglas Perry, vice-president of marketing for InaCom Inc., a chain of 1,200 dealers. "We've been trying to shift customers to other lines, but they've been surprisingly patient." Despite the shortage, he adds, his Compaq shipments soared 80% in the third quarter.

'WE WANT OUR
PRODUCTS WHERE
OUR CUSTOMERS
WANT TO BUY
THEM. WE HAVE
TO PLAY ON ALL
THE TABLES'

GIAN CARLO BISONI
Compaq, U.S.



Computer dealers, and the large corporations they sell to, remain the biggest chunk of Compaq's business, and Pfeiffer hasn't forgotten that. The plan for shoring up this part of the business revolves around networking, mainly with servers, the high-end PCs that are hubs for networks of desktop PCs. Compaq made an ambitious play for this market with the SystemPro line, starting in 1989. But SystemPro was a symptom of Compaq overengineering. Price tags ran as high as \$26,000, and a proprietary multiprocessor design required new software that didn't exist. The result: Compaq has less than 10% of the server market.

The new ProSignia servers are meant to change that. The base model uses a single Intel i486 processor and, at \$2,700, costs 55% less than the lowest-priced SystemPro. "We will shake up the server market like we shook up the PC market a couple of months ago," says Gary Stimac, general manager of Compaq's systems division. Analysts expect servers to contribute some \$375 million to Compaq's sales next year.

Servers are only part of the strategy in networks. Pfeiffer's theory is that if

the hub of the network is a Compaq, then it's a lot easier to sell the servers, the computers and peripherals that connect to it. That's why Compaq is moving into laser printers, with a model especially designed for networks. As it looks like Pfeiffer has a hit on his hands, the printers, in development for years, run up to twice as fast as the models from market leader Hewlett-Packard Co. but are priced as much as \$1,000 less. Analyst Barry F. Wilfong of Sanford C. Bernstein & Co. says Compaq could add \$90 million in sales next year.

Compaq has the money to develop these new products, despite its shaky earnings, because of another hard decision by Pfeiffer. In 1990, seeing an opportunity to be a leader in a new phase of the industry, Compaq joined the ACE consortium. The group intended to use a speedy RISC (reduced instruction-set computing) chip from MIPS Computer Systems Inc. instead of Intel chips. Compaq bought a 13% stake in Silicon Graphics Inc., a workstation maker, and the two began joint development of MIPS computers for Compaq. But last April, Pfeiffer pulled Compaq out of RISC development, withdrew from ACE, and sold back its Silicon Graphics stake for \$150 million.

BALANCING ACT. By scuttling its RISC machine, Compaq freed millions in research-and-development money, Pfeiffer says. He's also back in bed with Intel, which regarded ACE as a threat to its dominance in PCs. Pfeiffer hints at improved relations with Intel when Compaq lead the market with the next generation of Intel microprocessors.

The danger is that the balance that Pfeiffer is now executing successfully could come crashing down if he is sure to cut prices and costs is not enough to ease, but he's limited in how much he can cut before he starts sacrificing Compaq's advantage. To ensure top performance and innovation, the company was

'WE WILL SHAKE
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SHOOK UP
THE PC MARKET A
COUPLE OF
MONTHS AGO'

GARY STIMAC
Compaq, systems



of the manufacturing as possible—that means a lot more bricks than such rivals as Dell need. Fixed costs are about 6.3% of compared with 1.5% for Dell. That Compaq's ability to be the low-cost. Even today, its average selling some 30% higher than that of about the lowest-priced nation—Dell Chairman and CEO Michael insists there's no way Pfeiffer ops in both manufacturing and on for long: "I'm convinced

that it's hard to play both sides of this equation," he says.

Just watch, counters Pfeiffer. By owning its own source of supplies for important parts, he says, Compaq can control costs and quality better than any other PC maker—and get innovations to market faster. Even now, Compaq's research budget is \$180 million a year, about 5% of sales. Granted, that's down from \$197 million last year, but it blows Dell's budget—\$33 million on \$890 million in sales last year—out of the water.

"We are predestined to continue the leadership role in this industry because we have the resources," Pfeiffer says. Still, he has to prove over time that he can keep hammering rivals on price and his factories on cost to give Compaq the wherewithal to build in something extra. If he can't, trailblazing Compaq winds up being just another cheap clonemaker.

By Catherine Arnst and Stephanie Anderson Forest in Houston, with Kathy Rebello in San Francisco, Jonathan Levine in Paris, and bureau reports

SAVVY CONSUMERS KEEP PC MAKERS HOPPING

ike Baumgartner left no stone unturned in his six-month quest for a new computer. Little-based pilot, who has used PC for six years, read reviews compared ratings of mail-order. He checked out an obscure at the Costco Wholesale Corp. use club as well as the top at a computer dealer. Baumgartner finally took home a no-name tilt by two guys working out of front. For \$1,600 he got just needs: a 486SX processor, fax 8 megabytes of , and a 130-megabyte hard drive, "plus support." Says Baumgartner: "Not a bad h?"

deals have sent ng executives at q and other PC back to the draw-ards. These days, ket is full of con-who have bought ore and businesses ve ordered hun- "Buyers are says Ted Waitt, ecutive of direct r Gateway 2000. an't be fooled."

S. With hundreds dors to choose ustomers are ruthless in their for value. Some 650 business re computer buyers surveyed nmer by market researcher Sullivan Inc. listed cost and y as their top criteria. Not ot bells and whistles. "It's per-closest example in the U.S. to market," says Amy D. Wohl, t of market researcher Wohl es Inc. in Bala Cynwyd, Pa. ort, personal computers "are oming like VCRs," says Gary ' Boston Consulting Group Inc. VCRs, there are too many sup-

pliers, vying for market share. And since most PC brands differ from one another about as much as brands of VCRs do, competition turns on price. A Gateway based on a 486 chip that sold for \$3,000 last year is now \$1,495. Customers are conditioned to expect more of the same, says Michael S. Dell, chairman of Dell Computer Corp.: "Prices go down in this industry. It's a fact of life."

So, how will PC makers make a living? Fortunately, the analogy to consumer electronics isn't a perfect one.

40 PCs for its top executives, it looked for an IBM dealer, instead of cutting corners. "The support and training was really important," says Executive Vice-President A. Allan Kurtze. Still, he scoured the country for the cheapest dealer for the job.

The trick for PC makers will be to segment the market deftly. Not easy, as IBM learned with its PS/1. To make sure the home computer would not draw buyers from the pricier PS/2 line, Big Blue gave PS/1 limited upgrade capability and an undersized keyboard.

PS/2 buyers weren't tempted—nor were consumers who snapped up Packard Bells and other inexpensive clones.

DANGERS. Compaq's ProLinea line has, so far, straddled both worlds. It was originally meant just for the mass market, but Compaq's dealers insisted on carrying it, too. If the company had not given in, Compaq customers probably would have tracked down ProLineas wherever they were, says Debbie Meagher, merchandise manager for computers at Best Buy Co. Computer makers, she warns, will trip up by "trying to put

buyers into little cubbyholes that don't make sense."

It's tough to outfox a marketful of know-it-alls. But there's an upside. Savvy buyers can spot the subtle differences that spell extra value. Take Rabbi Martin I. Sandberg, who snapped up two of Gateway 2000's most advanced PCs for desktop publishing and other chores. "I want the best value," he explains. "But that doesn't just mean price. I buy to get the newest capabilities." Ah, sweet reasonableness. PC makers would welcome more of it.

By Lois Therrien in Chicago



GATEWAY BUYER SANDBERG: THE BEST VALUE "DOESN'T JUST MEAN PRICE"

It's most accurate for newer markets—consumers and small businesses. There, PC companies may have to act like Sony or RCA, spending heavily on advertising to stand out. But a big chunk of the market, the corporations that bought most of the PCs over the last decade, doesn't behave like your typical couch potato. Business buyers love a bargain, but because personal computers are so vital to their operations, they have other considerations.

Some are even willing to pay for extra service. Last spring, when Centel Corp. wanted a local-area network of

BIG BLUE HAS A CLONE OF ITS OWN

IBM's low-end machines could deal Compaq a heavy blow

There's one factor that Eckhard Pfeiffer doesn't name when he lists the reasons for Compaq Computer Corp.'s impressive comeback. And it might be the most important one of all: While Pfeiffer's troops have been pumping out ProLineas, ProSignias, Conturas, and other low-priced machines that have pumped up Compaq's volume, IBM has been sitting on the sidelines. Despite repeated hints since June by IBM officials about Big Blue's plans for entering the low-priced PC fray, nothing happened. So Compaq had four months to put its new PCs on the map without having to sell against comparable IBM machines.

The honeymoon is over. The ValuePoint line, IBM PC clones built by none other than IBM, is finally hitting the market. Introduced on Oct. 20, the line of four systems is aimed directly at Compaq's ProLineas. They start at a Compaq-matching \$795 and carry lots of service and support, not to mention what remains the industry's most powerful logo.

"A Big Blue box is going to get serious attention, even at the low end," says Tim Bjarin, analyst with Creative Strategies Research International Inc. "They have the brand-name identity. They are known for service. They are known for quality. They've just never been known for price."

SLIPPING SHARE. IBM has a lot riding on the ValuePoints. While Compaq and other rivals have been enjoying big runups in unit shipments this summer, IBM's market share has been contracting, partly because its big business-oriented PS/2s and home-market PS/1s missed the value-oriented buyers who are the fastest-growing part of the market. A Computer Intelligence buyer survey indicates IBM's share of PC units bought in the U.S. fell from 19% in May to 16% by August—despite price cuts on PS/2s.

When IBM rocked Wall Street with its disappointing third-quarter earnings



faster than the standard Intel designs, giving ValuePoints a performance analysts say.

Unlike ProLineas, which is widely distributed through mass merchandisers, ValuePoints are targeted primarily at corporate customers.

DID IBM WAIT

LONG? 'IF WE

ANNOUNCED

EARLIER, PEOPLE

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SAID WE SHOULD

HAVE WAITED

ANGELICA HORAITIS
IBM brand manager

report on Oct. 15 (page 28), PCs were singled out as a significant earnings drag. IBM blamed PCs for two-thirds of a 6-percentage-point drop in its overall gross margins, and analysts estimated that PC revenues in the quarter dropped by 30%.

Did IBM pass up sales by delaying ValuePoint until 20 days into the fourth quarter? "It could be true," concedes Angelica P. Horaitis, IBM's marketing brand manager for the new line. But she says the company is still well-positioned to capture the bulk of corporate orders in the remaining 10 weeks of the year. And, she adds, IBM had good reason for delaying the rollout: In September, it announced formation of the IBM PC Co., a more autonomous unit for building and selling

personal computers. Big Blue revamped its PS/1 and PS/2 lines to avoid confusing customers and dealers. "I think that the company was going to be there no matter what," says Horaitis. "If we had announced earlier, people would have said we have waited."

Now that ValuePoint is here, it gives it a good chance among savvy business buyers. The line uses 386 microprocessors built by IBM that

run faster than the standard Intel designs, giving ValuePoints a performance analysts say.

Unlike ProLineas, which is widely distributed through mass merchandisers, ValuePoints are targeted primarily at corporate customers.

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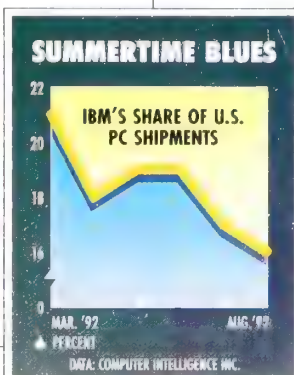
says Horaitis. They will be sold through dealers and through an 800-number direct-response IBM unit in Atlanta.

"I don't know that they brought anything to the table that ProLineas doesn't," says Bill L. Fairfield, president of InaCom Corp. Except, of course, for the unbeatable name, which Fairfield will win over thousands of IBM PC frame and minicomputer owners who would prefer to buy IBM PCs—if the price is right.

Can IBM turn the tables on Compaq? "Everything is very dynamic in this industry," says Sanford C. Bernstein Co. analyst Michael Kwatinetz. "But," he notes, a lot of people counted on Compaq a year ago.

One thing is certain: For IBM to pose a threat to Compaq—or the hundreds of other cloners—it will have to execute its plans a bit faster. Ask Eckhard Pfeiffer: Time is money.

By Catherine Arnst in New York



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Commentary/by Neil Gross

WHY CRAY'S NUMBER CRUNCHER GOT CRUNCHED IN JAPAN

It is a scene that by now is all too familiar: a war of words between Japan and the U.S. over high-technology trade. This time, the subject is supercomputers, and the precipitating incident is the decision by Japan's National Institute for Fusion Research to lease an NEC Corp. SX-3 system for \$625,000 a month instead of a C90 from industry leader Cray Research Inc. After Cray volubly objected to the award last summer, the matter was reviewed by a panel of Japanese experts. Now, they've endorsed the selection of NEC. That prompted Cray CEO John A. Rollwagen to call a press conference in Tokyo and cry foul. The contest for the Fusion Institute contract is over: The experts have ruled, and there is no avenue for appeal. But on Oct. 9, U.S. Trade Representative Carla A. Hills promised to "scrutinize" the decision on Cray's behalf.

Once again, Tokyo and Washington are on a collision course that could have—indeed, should have—been avoided. In theory, Hills's investigation could lead to a renewed warning about Japan's barriers to supercomputer trade. But it goes beyond supers. The heart of the matter is the Japanese government's long-standing vow to support high-quality U.S. imports. If Tokyo were sincere about that pledge, Cray might expect to win many more supercomputer bids where the Japanese government holds the purse strings.

SPEC SQUABBLES. Unfortunately, the fusion lab dispute has devolved into a tit-for-tat over obscure technical matters. Rollwagen, waving four pages of benchmark test results, told reporters that Cray's system exceeds all but one of the Fusion Institute's speed requirements. The institute disputes those data, but Rollwagen's conclusions were supported by test scores leaked to a Japanese trade magazine last summer and confirmed recently by sources close to the bid.

His opponents go on to argue that the extra power available from Cray's machine is irrelevant: The fusion scientists would never use it. Give us a break, say Cray officials: What scientist would thumb his nose at additional

supercomputing capacity? Finally, Japanese officials point to the bid's requirement that the machine work with specialized storage devices. Cray Research calls that a bogus requirement, designed mainly to stack the deck in NEC's favor.

This dialogue may be absorbing for techies in the audience, but it's a distraction from the more important issue. Subtle nuances aside, Japanese experts concede that, overall, the Cray and NEC computers are quite comparable in cost and performance. And that being so, the Japanese government,



FUJITSU'S SUPERS FACE A HARD SLOG IN THE U.S.

with a \$40 billion trade surplus to work off and a long-standing pledge to boost imports, ought to be bending over backward to buy American in this case. Rather than setting the stage for endless squabbling, Japanese officials should be scouring the U.S. market for big-ticket purchases that meet or exceed Japanese requirements for quality and performance. Cray Research supercomputers, which play an important role in U.S. research and defense efforts, fit that bill precisely.

Indeed, Cray is the undisputed lead-

er in large supercomputers, 67% of the world market. Fujitsu comes in second at 20%, and NEC at 6%. But look at Cray's track in Japan: Thanks to the 1990 supercomputer trade accord, its market share in commercial installations there inched up to 25%. Yet in the sector, which includes government-funded universities and research, Cray is stuck at a trivial 8%. Rollwagen is hardly wrong in de-

claring that, in a fair competition, we win where except Japan." Even so, Rollwagen's casting the issue as a matter of free trade may be doing his cause more harm than good. It's hard for Cray to mount its free-trade oratory in Japan while Washington continues to encourage Japanese supercomputer sales in the U.S. No stateside government labs—the biggest supercomputer users in the world—have bought a Japanese machine. And whenever a U.S. university or government agency has hesitated with buying a Japanese supercomputer, it has quietly lobbied to block the move.

FREEBIES. Last year, political pressure blocked Fujitsu from competing for a \$17 million machine to a Consortium of Environmental Scientists. Congressional critics objected to the idea of a Japanese machine. Yet last year, Cray donated an X-MP system to the U.S. Dept. in support of a high school supercomputing program. And nobody objected.

Clearly, Cray needs every edge it can get. It feels mounting pressure in the market it pioneered

and dominated for 15 years: On Oct. 1, the company began a restructuring that will eliminate 650 jobs. But it needn't resort to strident rhetoric to make its point. It would be better to focus attention on the substantial issue: Japan's failure to live up to the goals it has outlined for increasing high-tech imports. As the flak it would get from Fujitsu, the Japanese government hardly any downside in buying C90s: It would be good for purchases, good for the balance of trade and good for Japanese science

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30. Iowa Department of Economic Development



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C L A S S

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 **UNITED AIRLINE**



CHICAGO

"NATIONS ARE
NOT STRONG IF
THEIR CITIES ARE
NOT STRONG."

RICHARD M. DALEY
MAYOR



CROSSROADS OF AMERICAN BUSINESS



BY RON BOGNORE

"NATIONS ARE NOT STRONG IF THEIR CITIES ARE NOT STRONG."

says Richard M. Daley, Chicago's Mayor.

"Cities are the economic engines of America, the magnets for business activity, and the centers of culture and commerce. You can't isolate cities from their regions. Suburbs and cities must work together and think regionally about how to solve their problems and how to help their economies grow.

"Chicago's primary strength is its people. Like the city itself, they are friendly, strong, and proud. They are committed to working together, and they don't run from a challenge.

"Chicago's past and its future derive from our role as the crossroads of America. By land, rail, sea, or air, all

roads lead to Chicago. Our future growth and prosperity hinge on the further development of this role as a center of transportation, conventions, tourism, and recreation."

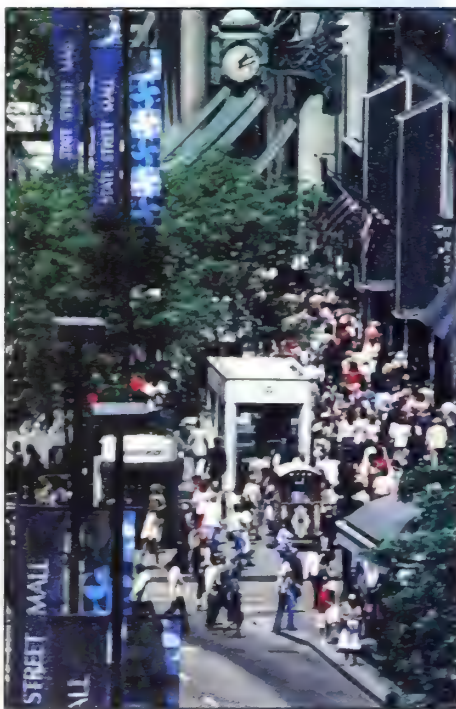
A CITY OF CHARACTER. CHARM. AND VISION

While the country's major cities have spent the recession just holding on or in many cases slipping, Chicago and its three million residents have continued to grow in the present and to plan for the future.

Chicago is booming because it is a world-class city that is home to a diverse pool of talented business people, and because it is at the country's — and the world's — crossroads.

Stretching nearly 30 miles along the shore of Lake Michigan with a downtown skyline of stunning architecture, including the world's tallest building, Chicago is home to 54 museums, 120 theaters and musical centers, the world-

STATE
STREET. THAT
GREAT STREET
INTERNATIONAL
TODAY
THIS CITY HAS
COME INTO
ITS OWN
WILL EMERGE



renowned Chicago Symphony Orchestra, the equally applauded Lyric Opera of Chicago, and the incomparable Art Institute of Chicago.

No other major city in North America is building quite as extensively as Chicago. The 44 million square feet of office space added during the last ten years have made this one of the largest

office markets in the country.

"Our diverse economic base provides a better quality of life for Chicagoans," says the Mayor. "The city helps Chicago remain more than most large cities. But you just wait for things to happen. You must plan and be creative to help the city prosper. You have to invest, then nurture, opportunities. That means tearing down the bureaucratic barriers."

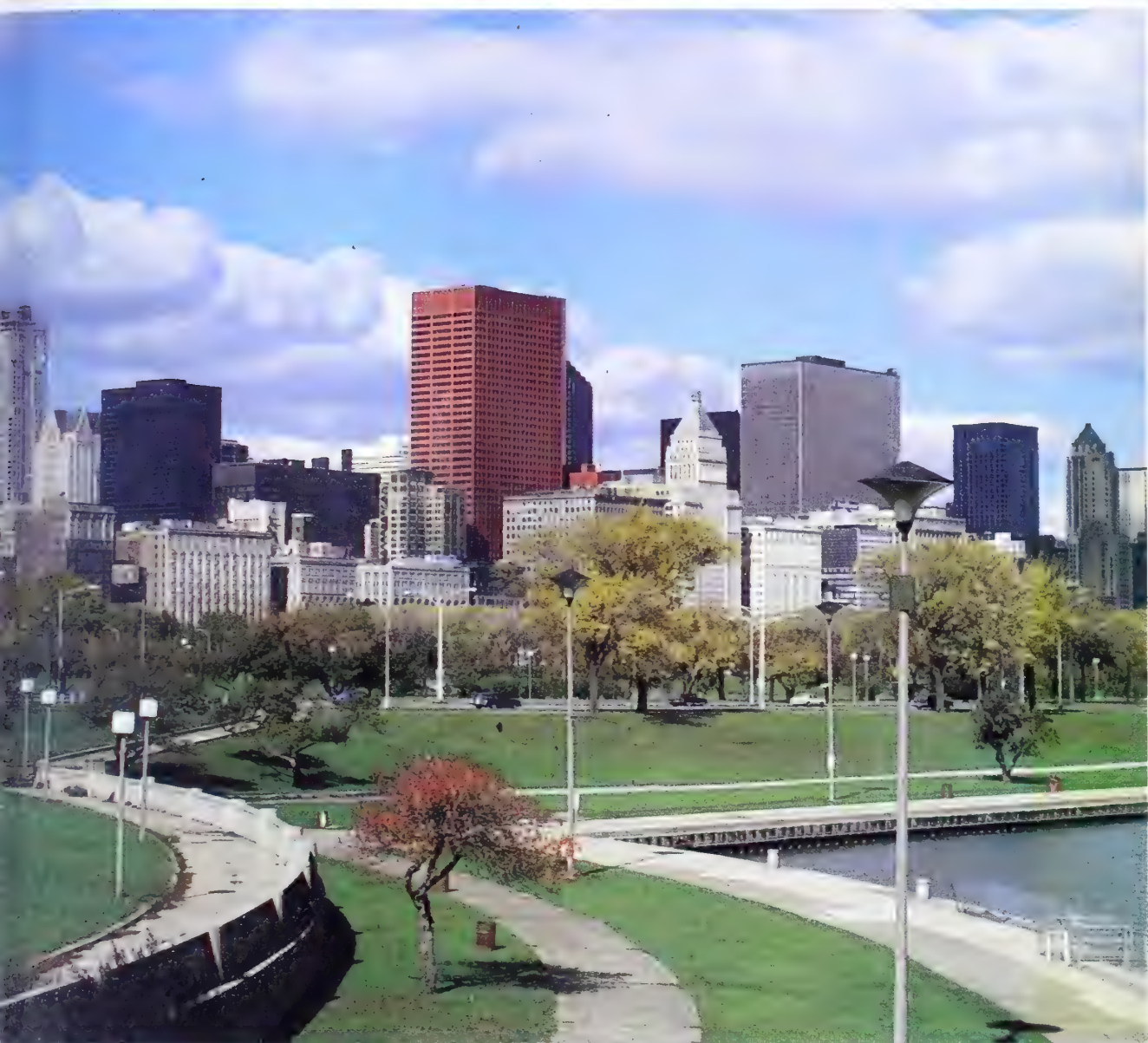
The Mayor's proactive style is reflected by an interactive approach. Chicago's business community and business community gets involved in the city. Many corporate leaders are here. I call upon them for input on any given issue. That's why government here works so well with the private sector. We listen to what business says, and we act on what's best for the city and business. You can't have one without the other."

THE NATION'S BEST KEPT BUSINESS SECRET

"Its ideal geographic position makes Chicago a major transportation center," says Ed Noh, Chairman of the Economic Development Commission of the City of Chicago. "Historically, this location was what Chicago built upon. That's more true today than ever before."

Important though position is, it's not the whole story. Chicago's success is due to a variety of additional attributes: warehousing, infrastructure and

IN THE HEART OF THE CITY THAT WORKS...



CNA INSURANCE WORKING HARDER FOR YOU.

As one of Chicago's largest employers, the CNA Insurance Companies understand the economic challenges that face our city's businesses, as well as those across the country.

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business community, a diverse pool of human resources, cleanliness, the lakefront, and an extensive cultural base. And the city's greatest attribute, according to Noha, is the tremendous relationship between the business community and the mayor's office.

"Richard Daley is a natural leader who reaches out to the business community, while making city government more efficient and effective. He acts on recommendations, which is why he has the support of the business people here.

"We haven't spent enough time telling the rest of the country what a great place this is to live and work. Rather than big tax incentives, we're putting the money into transportation and real estate development and improving the quality of life for businesses and the people they employ. We're the best kept business secret in the nation. The Economic Development Commission is exposing that secret."

GREEN BY DAY AND LIGHT BY NIGHT

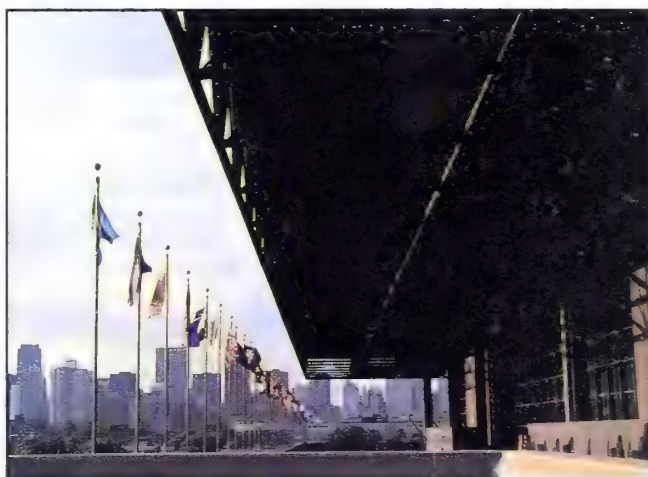
Chicago is set dramatically on the western shore of Lake Michigan and is bisected by the Chicago River. Clean and green by day and dazzling at night, Chicago's appearance is no accident.

Spurred by Mayor Daley's strong belief that trees are good for a city's aesthetics and ecology, new developments adhere to guidelines for landscaping and setbacks. The Light the Loop Committee, established by the Mayor, works with developers to see that reconfigured or new buildings include plans for exte-

rior lighting to help the city glow at night.

Friends of the River is a group that works with the city and developers to ensure that the downtown riverfront is inviting for the public to use. Builders follow design guidelines that promote a continuous walkway and foster a consistency to the riverfront's growing retail, commercial, and residential community.

"Chicago is an incredibly vibrant city and an attractive location for businesses to expand and grow," says Valerie Jarrett, commissioner of the



MCCORMICK
PLACE, THE
NATION'S
LARGEST EXHIB-
IT SPACE,
IS EXPANDING
AGAIN

Department of Planning and Development. "Our corporate citizens participate in making the city stronger, and that includes continuing to care for the city's physical image.

"The city is pro-business and pro-development, and this administration is committed to making businesses located here thrive. The wealth of joint public and private projects are visible examples of how government works with the private sector. We in Chicago

nurture investment both for the future to position ourselves for tomorrow.

That list of public and private projects makes city leaders across the country green with envy.

MCCORMICK PLACE CONVENTION CENTER TO THE WORLD

Chicago is growing its convention and trade facilities in response to the

for growth within the business community and from the downtown vendors who want to show their products.

To meet the needs of larger and

creative expansion of the nation's exhibition

McCormick Place, which hosts 10 million people per year, is growing. Currently under construction, McCormick Place III will not only expand McCormick Place the nation's largest permanent exhibition center, but will also help to revitalize the area.

"The project will provide thousands of jobs to the state with huge benefits," says Mayor Daley. The Metropolitan Pier and Exposition Authority, Jim Reilly, "including the creation of additional permanent jobs, more than \$80 million in new tax revenue each year, and an additional total economic impact of \$1.6 billion."

Business banking cut from a different cloth.

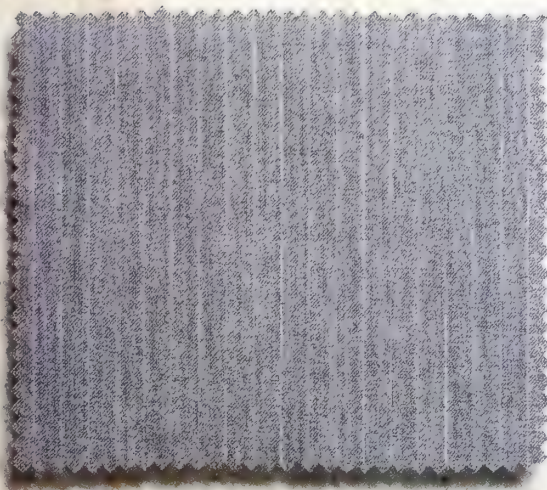
More often than not, the to-day activities in the worlds of equity financing, portfolio management and capital funding could be described as something akin to war.

It's not a battleground for the faint of heart. Nor is it for rigid, inflexible automatons. Ironically, though, many business bankers are as straight and narrow as the stripes they wear. Which, to us, doesn't make a whole lot of sense.

We've learned that the road to victory often requires insightful, anticipatory strategies, followed by, sometimes guerrilla-like tactics. All deployed by aggressive, forward-thinking bankers.

We have an army of those bankers at Continental. And each is eager to advance your interests in the face of seemingly insurmountable odds.

So eager, in fact, that some are even planning to make contact with you this very minute. Just so we can help you and your business be all that you can be.



Our trappings.



Our attitude.



Continental Bank

Anticipating the needs of business.™

During construction, another \$3.5 billion in economic activity, including more than 7,500 construction jobs, is expected.

At a total cost of \$987 million, the project's plans call for one million square feet of additional first-class exhibit space plus 300,000 square-feet of new state-of-the-art meeting facilities.

Existing space will also undergo renovation, including new entrances, lobbies, and signage. A glass-enclosed concourse will serve as a unifying element for the complex, connecting the East, North, and new South buildings.

In 1971, the new McCormick Place replaced the original with a four-level structure of exhibit space, theaters, restaurants, meeting rooms, adjunct facilities, and a main exhibit hall with enough floor space to fit four football fields. In 1980, McCormick Place, responding to demand, added the West

Building, and in 1986

once again expanded, adding the North Building.

"The latest project is designed to keep Chicago a cut above

competing cities by providing the largest facility complex in a user-friendly, cutting edge environment," says Reilly. "Project completion is projected for 1997."

O'HARE AIRPORT: CROSSROADS OF THE WORLD

The world's busiest airport also continues to grow. The new international terminal, a state-of-the-art and visionary building currently under construction and scheduled to open in the summer of 1993, will dramatically increase O'Hare's ability to service more cities around the world than ever before.

"Chicago has taken great strides in the past few years in expanding air travel opportunities," says Chicago Department of Aviation Commissioner David R. Mosena. "As the world takes notice

of O'Hare's progress, more business will be attracted to Chicago because of its unprecedented level of air service to hundreds of destinations. The city plans to focus its efforts on revitalizing the airport and maximizing our economic potential.

"Today, travelers enjoy an excellent level of international air service, with over 30 non-stop destinations worldwide. Our new international terminal positions Chicago to become the transportation,

Increasingly, businesses are choosing Chicago as the site of their corporate headquarters because most domestic and international companies do business here.

"A strong economy relies on the existence of an advanced communication structure, and Chicago has one of the most information highways anywhere in the world. Ameritech views Chicago as an excellent place in which to do business and for development of new information technologies." WILLIAM L. WENK, CHIEF, AMERITECH

"Continental Bank has been serving the Chicago business world for 135 years. We are happy to have almost a third of our customer base in Illinois. The changes in the business, their owners, and their needs have successfully navigated tremendous course changes this past decade. We are proud to be part of Continental Bank. In large part, this is because we are headquartered in Chicago. That we can all look forward to a bright future." THOMAS C. THEODORIS, CHIEF, CONTINENTAL BANK CORPORATION

"There's a business/political hub in Chicago that you don't find anywhere else. When you look at the political changes that have occurred in the city and you remember that the city remained strong throughout, you know this is a city that works." DAVID L. HENSON, PRESIDENT, HYATT HOTEL CORPORATION

"Chicago continues to be a major rate headquarters city for national and international companies. The city's leading financial risk management center, building on the strengths of its exchanges and strong financial institutions, including banks and insurance companies. We are proud to call Chicago home." DAVID VITALE, EXECUTIVE VICE PRESIDENT, FIRST CHICAGO BANK

"Chicago gives CNA access to a large labor pool, a favorable business environment, and a wide range of cultural, educational and recreational amenities to its employees, which is important for growth. Chicago is also an attractive headquarters for businesses because of the financial center of the Midwest and the world's largest options and futures exchanges." DENNIS CHAMBERLAIN, VICE CHAIRMAN, CNA INSURANCE COMPANY

THE PEOPLE
WHO
MOVE AT
O'HARE
"CHICAGO
BUSINESS IS
OFTEN AHEAD
OF OTHER
SECTIONS OF THE
COUNTRY"



American Understands The Ins And Outs Of Doing Business In Chicago.



If you're headed to Chicago on business, American Airlines knows exactly what you need to make the most of your trip. After all, we've been doing business in and out of here for over thirty years. That's why we give you a choice of over 900 nonstops to and from O'Hare every day. Nonstops that can connect you with 116 U.S. and 15 international cities.* That's why we offer you the comfort and convenience of our modern Gateway to the World terminal. And that's why we have 12,000 employees based here, each of whom understands your needs as a business traveler. And how to fulfill them. So next time you want to get down to business in Chicago, fly the airline that means business in Chicago. Call your Travel Agent or American at 1-800-433-7300.

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*To learn American Airlines' route to Chicago, call 1-800-433-7300. American Airlines is a member of the American Airlines Group. © 1991 American Airlines. All rights reserved.

distribution, and warehousing center of the world."

Encompassing 156 ticketing positions, 21 gates, 11 moving walkways, and 68 state-of-the-art federal inspection booths within 1.1 million square feet, the new terminal will triple the current capacity and will feature ready access to the domestic terminals plus 600 adjacent parking spaces.

Through the year 2000, international traffic at O'Hare is projected to grow at least 10% each year. Improved international access to and from Chicago is part of the overall plan to increase Chicago's presence in the world market, as well as to bolster and expand the city's extensive tourist industry.

Also under construction at O'Hare is the Airport Transit System, commonly referred to as the People Mover, a user-friendly light rail system which will

improve the operation of the airport

itself, making it easier for passengers to get around from terminal to terminal.

"Our new Airport Transit System, or ATS, will secure Chicago's preeminent role as the key

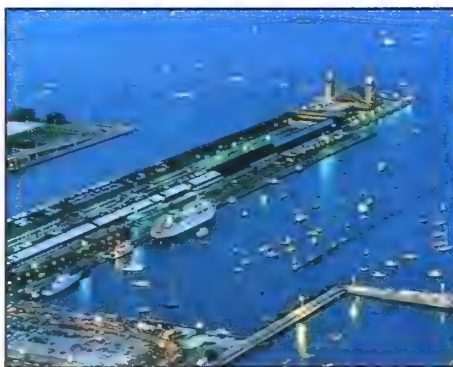
transportation center in the U.S.," maintains Mosena. "The ATS makes connections easier and expedites travel for international travelers transferring to domestic flights. In the future, Chicago envisions extending existing commuter rail lines and linking them to the ATS to enhance our multimodal transportation system."

THE CIRCULATOR — OR THE BIG LOOP

Even people who have never been to Chicago are familiar with the phrase "The Loop." By 1998, they may be used to the expression "The Big Loop."

Generally used to mean the heart of downtown, the Loop actually refers to the four-sided circle made by the elevated public transit tracks that service the heart of the central business district. That landmark may have its title usurped in 1998 when Chicago unveils a new public transportation system designed to complement existing transit routes.

To help employees, residents, and visitors get across an expanded downtown that has grown from one square



mile to eight, the city is undertaking a massive new transportation project called the Central Area Circulator. A light rail system, the Circulator is proposed to run at street level along the lake from McCormick Place to the North Michigan Avenue area and from the lakefront across the Loop to the major commuter rail stations on the Near West Side.

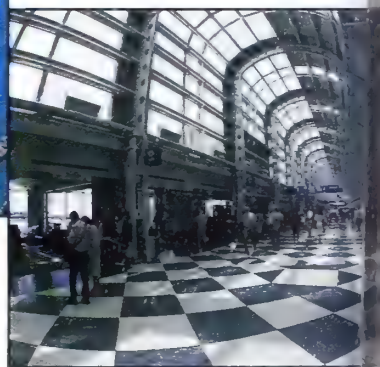
Proposed routes look much like another Loop, in that the general area to be served resembles a large, four-sided circle, but the big difference is that

numerous employment, tourist, and recreational destinations on all sides are interconnected across the middle.

"This system will truly make Chicago a modern city and will maintain its status — both nationally and internationally — as a primary business location," says Stephen E. Schlichter, executive director of the Central Area Circulator project. "The Circulator, which is benefitting from extensive community input, will also focus on economic development in under-served areas, improve air quality, and reduce traffic congestion."

NAVY PIER: A CLASSIC REBORN

Putting out into Lake Michigan beckoning hand in the middle of Chicago's 29 miles of continuous



ational lakefront, Navy Pier has stood for 76 years as a glorious tribute to the city's long love affair with architecture. Currently underway is a massive renovation effort that will bring this historic landmark to new heights of modernity and elegance for Chicagoans.

"The Pier was dedicated at its opening to the people of Chicago," says the Metropolitan Pier and Exposition Authority.

NAVY PIER
LEFT, O'HARE
AIRPORT INTERIOR, RIGHT,
"OUR STRATEGIC MIDWEST
LOCATION
MAKES US
EASILY ACCESSIBLE FROM
ANY LOCATION
AROUND
THE GLOBE"

COULDN'T BE MORE PLEASED TO SEE AMERICAN TECHNOLOGY IN JAPANESE HANDS.

Motorola's Micro TAC II™ was the first cellular phone to break the eight ounce barrier. It's one of the smallest and lightest in the world. And

popular in Japan. Along with our pagers, semiconductors and trunked radio systems, our cellular phones have quite a name for Motorola in a country known for excellence in electronics. That's because we've made perfection our goal. And we won't stop there. As we continue to improve our processes, our objective will always be to develop higher performance products faster—and price them better, too. At Motorola, we're not just meeting the toughest standards in the world today, we're striving to set them.



MOTOROLA

Quality Means The World To Us.™

It Takes More Than A Basement Full Of Water To Dampen The Spirits Of The Chicago Board Of Trade.

Last April, the Great Chicago Flood had the downtown business community treading water. With the Chicago River coursing into the underground tunnel system beneath the city's business district, many operations were seriously interrupted.

The Chicago Board of Trade was one of them.

During those first critical days, the entire city pulled together and worked furiously to get CBOT operations up



and running in record time. As a result, CBOT was down less than two days. But it was long enough to disrupt financial and commodity markets worldwide. The CBOT, the world's largest futures and options exchange, serves as a central marketplace for the agricultural and financial economy. Without price discovery and risk management mechanisms, traders and investors around the world, no longer had a safe haven to protect their investments from adverse market movements.

Mayor Daley made it a top priority to get our markets up and running again quickly, recognizing the

vital global economic function we serve and our contribution to the city and state economy as well. The exchange is directly responsible for thousands of jobs, billions of dollars in average daily bank deposits and the generation of millions in tax revenues.

With our trading volume increasing, and new, innovative



contracts on the horizon, it is going to take more than a basement full of water to dampen our spirit.

 **Chicago Board of Trade**

ity Chairman John Schmidt, will serve that tradition again, than it ever has. We are excited to plans for it, so long in development, finally coming to fruition. When completed, Navy Pier will be a welcome destination for Chicago's residents and the business community at large."

Targeted for completion in mid-1994, the Pier will be host to exhibitions and city cultural events in a variety of new settings. Included will be the Jay Park at the headlands area of the Pier, the Grand Promenade with a walkway of shops down the 3,000-foot length of the Pier which pedestrians, bicyclists, and joggers will share, a trolley shuttle bus, and the Jay Pavilion which will offer a variety of exhibits. The Pier also will feature a Children's Museum, a Grand Gallery

of retail shops, and the Crystal Gardens, the largest indoor garden in Chicago.

The Navy Pier Gardens, by contrast, will feature an open landscaped area for outdoor horticulture, fountains, a covered ice skating rink, and an 1,800-seat performance tent. The final new building to be constructed, Festival Hall, will serve as a multipurpose exposition and special events facility.

To complete the redevelopment, historic Pier buildings that were restored in 1976 as a Bicentennial project will be further renovated. These include the Terminal Building, the Shelter Building, whose observation deck will be developed into an outdoor dining area, the Recreation Building, which offers a 12,000 square foot reception area, and

the Auditorium Building, whose magnificent 25,000-square foot

rotunda ballroom is crowned by an 80-foot domed ceiling and surrounded on three sides by the gentle swells of Lake Michigan.

Designed as a "modern *Sans Souci*, a veritable 'palace without a care' where fresh air, sunshine, free concerts and entertainment under ideal conditions" would be offered,

Navy Pier opened to the public in 1916 as the only Lake Michigan public recreational facility. The Pier has served as a port for cargo and passenger ships, a staging area for the military in World War I, a naval training center, a university campus, and an exposition center.

Despite its many transformations, Navy Pier has always returned to its original use as a unique recreational area for Chicagoans where the public can stroll, play, enjoy the creative arts, and — in the summer months — even get married.

INTERNATIONAL BUSINESS CONNECTIONS AROUND THE WORLD

"The Midwest is one of the nation's most prosperous regions,

and Chicago is its hub," says former U.S. Senator Adlai Stevenson. "This city is a growing transportation, distribution, manufacturing, service, and financial center for the world."

Chicago is ripe for international business, and is aggressively courting the world's commerce. At the Illinois World Trade Center, an electronic bulletin board connects Chicagoans with three million people around the world for the primary purpose of buying and selling.

"International trade flows to and from Chicago for

"CHICAGO
IS THE LARGEST
SMALL TOWN
IN AMERICA
EVERYONE
WORKS
TOGETHER
HERE."

DARRYL HARTLEY
LEONARD





"THOSE WHO
LIVE IN CHICAGO
LOVE IT. AND
THOSE WHO
LEAVE WANT TO
COME BACK."

JACK SANDER

international trade is the support of Richard Daley," Hartigan maintains, "and his close ties to our diverse ethnic communities. The investment from Asia, Europe, Latin America, and Canada is in large part due to the mayor's commitment to our local ethnic populations. It is with their help that the chambers of commerce around the world are opening their doors to Chicago."

CENTRAL STATION: THE NATION'S LARGEST URBAN LAND DEVELOPMENT

In the largest urban land development in this decade anywhere in the United States,

many reasons, chief among them is where we're located," says Neil Hartigan, chairman of the Illinois World Trade Center. "Add telecommunications, our abundant supply of electricity, extensive transportation, the fresh water of Lake Michigan, and

financial market leadership second to none, and you have the ingredients for a first-class, international city."

Members of the Illinois World Trade Center Association can connect directly with over 500,000 business executives via a state-of-the-art communications system that makes access available by PC and modem. That puts the world — including market knowledge, competitor intelligence, and local customs, language, and translation — on any desktop in Chicago. Additionally, companies can advertise across the system, getting their sales pitch directly to 236 similar world trade centers in 56 countries throughout the world.

"The critical key to our leadership in

the Central Station Project in the South Loop is turning 72 acres of lakefront property known as Burnham Park into an extensive mixed-base development.

"Central Station's proximity to McCormick Place and the Museum Campus to the east, both of which attract visitors from all over the world, makes it an ideal location for businesses of all types, both domestic and international," says Michael A. Tobin, president and COO of the Central Station Development Corporation. "A home in Central Station allows a company the opportunity to showcase itself in an environment unmatched by any other in Chicago."

Unlike other urban centers where we flee at day's end back to the suburbs, Chicagoans not only work but also live and play — in the downtown area, which stays very much alive until the wee hours of the morning.

"Chicago has always been the city for all seasons. Culturally, socially, and commercially, Chicago bustles with energy. In the past, we were Sandburg's 'Hog butcher to the nation.' Today, we are 'Risk manager to the world.' Chicago, the Chicago Mercantile Exchange is the fastest global growth industry: risk and asset management." DOUG SANDER, CHAIRMAN, CHICAGO MERCANTILE EXCHANGE

"Transportation in and out of the city is so easy for employees that a great many people stay around downtown after work. The city encourages this, bringing frequent concerts and festivals to the downtown lakefront just about year-round.

Moreover, the changes currently underway — more residential, retail, educational, and cultural offerings than ever — make downtown an exciting place day and night." WILLIAM DALEY, PRESIDENT, ILLINOIS BOARD OF CHICAGO

"We have 41 Crate & Barrel stores in markets across the country, including major cities. Chicago, where we have three very successful stores including our flagship store on Michigan Avenue, is a unique retail center because of the environment of the city itself. It has a favorable business climate, and it is safe to live in this city. Government helps business by fostering a better quality of life for its people." GORDON SEGAL, PRESIDENT, CRATE & BARREL

"The city of Chicago, with its beautiful lakefront, has a wonderful history. Culturally, we have everything to offer: theater, museums, opera, the symphony, and stunning architecture. Chicago has it all. Moreover, Chicago is truly a national city and one of the premier business and tourism hubs in the world. The city has always been one of the most productive metropolitan areas in America, offering tremendous opportunities for industry headquartered here." HUBERT H. BONDIVAN, PRESIDENT, AMERICAN BOARD OF TRADE

When you're away from your office we bring your office to you.



any you can carry a phone in your shirt pocket, keep your pager in your briefcase, even send a fax from your car. Ameritech is at the forefront of this personal communications revolution. Since we built the world's first commercial mobile telephone network, we've become the largest operator in the Great Lakes region. With every-thing from messaging and paging to information access, we're giving people with new freedom and mobility.

We're preparing for the future, too. This year we're conducting one of the most comprehensive personal communications services (PCS) trials in the nation. Our PCS technology will utilize our existing network and allow portable phones to be smaller, lighter and less expensive. Also, we are pursuing digital technology with the potential for fifteen times more capacity than current cellular systems.

At work, at home, and on the move, we're connecting our customers with tomorrow and our shareowners with financial opportunity. *In fact, we've already outperformed the other regional communications companies in return to equity eight years in a row.*

For a copy of our Annual Report or related financial publications, call Ameritech Investor Relations at 312/750-5353.

THE COMMUNICATIONS COMPANIES OF AMERITECH ARE:

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Ameritech Information Systems • Ameritech International
Ameritech Mobile Communications • Ameritech Publishing
Ameritech Services • The Tigon Corporation.

AMERITECH

Connecting You With Tomorrow

The large availability of land within the Central Station site gives companies nearly unlimited flexibility in building design, as well as the capacity to accommodate future growth without relocating to a new location.

Retail, office, and permanent exhibition space, residences, hotels, and institutional buildings are being planned in a "cooperative community" environment. The first phase is already under construction with 2,500 residential units planned. Of the 160 townhouses currently under construction, a third have been pre-sold in the first three months of marketing. The second and third phases will focus on mixed-use commercial buildings.

Central Station was originally built in 1892 as a showcase terminal for the Illinois Central Railroad. During the 1920s, prestigious neighbors sprang up around Central Station, including the Field Museum of Natural History,

Grant Park Stadium later renamed Soldier Field in honor of the soldiers of World War I, the John G. Shedd Aquarium, and the Adler Planetarium, the first in the U.S.



Outliving their original use, the railroad yards of Central Station are about to enjoy a new role in Chicago history as home to wide, landscaped boulevards and extensive parklands that will create a campus-like environment rarely seen in a traditional central business district.

"If Chicago's story of growth in the eighties was the redevelopment of its traditional central Loop," says Tobin, "the story for the nineties and beyond will be the rejuvenation of Chicago's historic Burnham Park community."

STATE STREET: AN EVEN GREATER STREET

While Daniel H. Burnham's masterful plan of 1908 dominated the evolution of downtown for decades, the latter half of this century has its own grand planners. The

Chicago Central Area Committee (CCAC) was founded 35 years ago by representatives from the private sector who wanted to create a "vision" of Chicago in concert with the city. In short, they have a lot to do with how Chicago looks, from its impressive, cohesive skyline to the sidewalks that front its award-winning buildings.

The heart of the central business district is State Street, known through song and reputation as "that great street." The dynamic center of Chicago, State Street has always responded positively to change. Recent and future develop-

CHICAGO'S
LOOP IS A
POPULAR
SHOOTING
LOCATION FOR
MAJOR FILM
STUDIOS

THE CITY THAT WORKS EVEN WHEN IT CAN'T

Most school children believe that a boy kicked over a lantern in 1871 and started the Great Chicago Fire. Now they have a date and event to remember: Chicago's Great Loop Flood of '92.

In the early morning on April 13, a pipe opened in a freight tunnel running beneath the Chicago River about 40 feet below street level. Up to 150 million gallons of river water poured into the basements and subterranean spaces, forcing Commonwealth Edison to cut power to a 20-block area of the Loop and scatter locations across greater downtown.

Mayor Daley immediately asked that the Loop be declared a federal disaster area and ordered an evacuation of the area. Within 24 hours, the Army Corps of Engineers, Commonwealth Edison, and city officials evaluated the situation and assessed the danger. Simultaneously, the city set up hot lines and coordinated the efforts of businesses, utilities, police, and residents. The prodigious efforts of engineers and utility crews over the next two weeks to seal the leak, pump water out of the tunnels and basements, and restore power are history and will not soon be forgotten.

"It is a testament to everyone involved without a blueprint, over one million people were evacuated from the area in three hours," says Donald A. Petkus, president of corporate relations at Commonwealth Edison. "The governor, the police, the fire department, the business community, and, most importantly, the citizens came together immediately and did what had to be done."

Commonwealth Edison set up an emergency "800" number for business customers and opened an Emergency Restoration Center in the Loop to provide communication between customers and the utility restoration team. Business leaders, the utility crews brought buildings back online, and the companies within them benefited. Businesses praised both the city and Commonwealth Edison for their efficiency, and humane handling of power throughout the crisis.

During the two weeks of the Great Loop Flood of '92, there was no increase in looting, and no one was hurt. "In many other American cities, large disasters asks Petkus, "would be able to say that



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\$100,000,000



**Amsted Industries
Incorporated**

Senior Notes

We acted as financial advisor and placement agent
in connection with the private placement
of these securities



Bradner Central Company

Cash Management System

The company has consolidated
its operating business with us

\$50,000,000



ERO Industries, Inc.

**Revolving Credit and
Acquisition Financing**

We acted as agent for this transaction
to refinance existing indebtedness and provide
for the acquisition of SGI Inc.

\$20,000,000

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We provided financing for the company's
acquisition of Fanny Farmer



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Corporation**

**Foreign Exchange and Risk
Insurance**

We act as a counterparty on foreign exchange
and risk insurance transactions

\$50,000,000



Safety-Kleen Corp.

Interest Rate Swap

We acted as a counterparty
on this transaction

\$880,000,000

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We acted as agent
on this financing

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We acted as agent and
led these facilities



Whitman Corporation

**Interstate Rate and
Currency Swaps**

We acted as a counterparty
in these transactions



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ments, suggested in large part by the CCAC, are turning it into much more than it ever has been, and this at a time when most downtown areas centers are going bust.

Chicago has been developing an international flair. We're going to end a new personality," says Tom executive director of the "From fashion to sports, from to architecture, Chicago is g international attention. That and false — Capone image has aded. The evolution is most in e on State Street."

as the city's premier commer- o, State Street for most of its life place where people from across on came to shop. An attempt to the area in the 1980s closed off et to all traffic except buses. ks were widened to twenty feet ght full blocks.

"Eight blocks turned out to be far longer than people would walk in a mall setting," explains Cokins, "and so over the past decade the area has steadily undergone conversion to mixed-use. The whole fabric of the area has changed, adding office and residential space, banking and educational institutions to the retail that was there before. The area is more active than ever. Over 100,000 people now live in the downtown district."

At the southern end of the mall the Harold Washington

Library, the country's largest public knowledge lender, now stands in memory of Chicago's first black mayor. Around the high-tech information complex, the city's downtown campus of higher learning has spread out, and now includes DePaul University Extension, Roosevelt College, Columbia

College, the School of the Art Institute, and the John Marshall Law School.

"The improvements that are coming to State Street are a natural growth of what has happened in the area," explains Cokins. "The sidewalks will be restored to normal width, and then the street will be reopened to traffic. We may even see the Circulator run down the middle. The fact is, we don't need massive intervention

for new development because the basis for transportation in, around, and out of the area is in place. We are only improving it."

SOUTH WATER MARKET: ENLARGING THE BREAD BASKET

Chicago has always served as the food distribution center for the country. Fresh produce from farming communities has long arrived by train and truck and found its way to the South Water Market. Changes in demographics and consumption trends have increased the influx of fresh food to the point of strain-

ing the South Water Market beyond its capabilities. The current facility on 14 acres

consists of three floors plus a basement.

The city's answer to this problem is to develop a new, first-of-its-kind distribution center on a 62-acre site at Ashland Avenue and the Stevenson Expressway as part of its targeted industrial park initiative to bring high-paying jobs to Chicago.

The new market will replace the old venue with the country's latest food distri-

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CHICAGO'S CUR-
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bution center, incorporating state-of-the-art food handling technology with better access for vendors. Improved vehicular access and the latest in receiving dock technology will increase overall efficiency and encourage expansion.

"Currently, South Water Market houses 62 wholesale food firms, most of whom are produce distributors, and employs 1,200 workers. What was a four-story state-of-the-art terminal market design in 1925," explains Charles Thurow, First Deputy Commissioner at the Department of Planning and Development, "now results in traffic congestion and inefficient work patterns and prohibits Chicago from capturing its share of national growth in the produce industry."

The new market is intended to alleviate all those problems and position Chicago again as the national center for produce handling and distribution.

"We surveyed 85 produce wholesalers in the metropolitan area, focusing on business characteristics and space needs," explains Thurow. "Based on this information, we've developed

a conceptual design that will accommodate firms currently at South Water Market, as well as non-market firms desiring a central market location. We expect, however, that the facility will eventually expand significantly beyond immediate space needs as businesses grow and new companies gravitate to the development."

This project is part of a larger effort by the city to strengthen its food industry and further enhance its role as a center for food processing and distribution.

MIDWAY AIRPORT RAPID TRANSIT LINE : GRAFFITI-FREE

Chicago is a cab driver's dream. A grid system of north-south, east-west interlocked streets makes it virtually impossible to get lost in the

city. Adding to the ease of getting around town, the Chicago Transit Authority (CTA) brings public transportation to a new high for large metropolitan cities.

The latest CTA line under construction connects the downtown area

ONE OF
THE LAST
CLASSIC BALL-
PARKS,
WRIGLEY FIELD
IS A TOURIST'S
MUST-SEE
ATTRACTION



AN AMERICAN CITY WITH INTERNATIONAL STYLE

Chicago's strategic location, its many embassies, global tourism, and direct air connections to the world's capitals place the city at the forefront of international business.

"Once simply the transportation crossroads of the nation, Chicago has fast emerged as a crossroads of the world. The heart of it all is Chicago's O'Hare International Airport. As United Airlines' hometown and primary hub, Chicago and O'Hare have provided the kind of foundation that has enabled us to launch a global airline that now spans 33 countries across five continents." STEPHEN WOLF, CHAIRMAN AND CEO, UNITED AIRLINES

"Chicago is headquarters to more of America's companies than all but one city, New York, and many of these companies are doing business all over the world. The North American Free Trade Area negotiations may soon make one of this continent, with Chicago at the center." ADLAI STEVENSON, FORMER U.S. SENATOR

"Chicago is a perfect microcosm of America as a melting pot. The city's tremendous ethnic mix of people who have coexisted for generations. As a result, the city is filled with wonderful diverse dining and shopping opportunities which reflect our population. Visitors find Chicago a very comfortable city, reminiscent in size and access to many European cities; it's a versatile, friendly city, yet sophisticated and inviting. A wide variety of residential neighborhoods continue to thrive close to downtown. Many Chicagoans live in the city and can walk to work, shopping, and an incredible variety of opportunities from dozens of world-class museums to a dazzling array of restaurants and shops." ROBERT WISLOW, PRESIDENT, U.S. EQUITIES REALTY, INC.

"Chicago has traditionally been a national crossroads, and since 1930 American Airlines and its predecessor lines have been flying mail, cargo, and passengers in and out of the city. American is the largest international carrier from Chicago's O'Hare International Airport, with more nonstop flights to Europe from its 'Gateway to the World' hub." JIM HANCOCK, VICE PRESIDENT-CHICAGO, AMERICAN AIRLINES

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with Midway Airport, mirroring the existing public transportation service that runs from the Loop to O'Hare Airport. The purpose of the Midway Airport Rapid Transit Line is twofold: to increase access to Chicago's Midway Airport and to offer residents of the Southwest Side neighborhoods ready access to the downtown area where many work.

"For the Southwest Side, the Midway Airport Line will be the gateway to the Loop, a vital artery improving access to jobs, relieving traffic congestion, and linking neighborhoods to educational and recreational opportunities," explains Robert Belcaster, president of the Chicago Transit Authority. "Adequate transportation is vital to economic growth, and this line will be an open door to those opportunities."

Modern, picture-windowed, air-conditioned CTA trains and buses network the city with day and night ser-

vice. Main routes run 24 hours a day, year round. Outreach routes deliver passengers to connecting terminals at the edges of the city where they can link up with commuter trains and suburban bus lines. Unlike many other municipal transit systems these days, CTA property is virtually graffiti-free because all defacings are painted over or removed daily.

Transit time on the new line from the Loop to Midway Airport will be about 25 minutes. In 1980, 1.26 million passengers used Midway, but by 1990 that number had grown to 8.8 million. The Midway Airport Rapid Transit Line is expected to transport nearly 50,000 riders on a typical weekday.

A NEW HOME FOR THE BULLS AND THE BLACKHAWKS

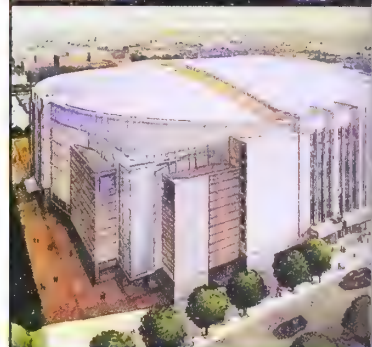
A fanatical sports town with sold-out events year-round, Chicago is home to two major league baseball teams, the Cubs and the White Sox, the NFL's Chicago Bears, the NHL's Chicago Blackhawks, and the Back-to-Back World Champion Chicago Bulls.

Hard upon the opening of the new Comiskey Park, home of the White Sox, the Bulls and the Blackhawks are also getting a new venue. The new Chicago Stadium will be a cutting edge facility when it opens in September of 1994. Located on the Near West Side directly across from the current Stadium, the Bulls' and the Blackhawks' new home will offer amenities and designs to rival the best indoor

venues anywhere.

"Chicago fans have no peers. They take their sports very seriously. We owe them the best privately-financed building in the world, and that's what the new Chicago Stadium will be," insists Bill Wirtz, president of the Chicago Stadium and president of the Chicago Blackhawks.

"The old Stadium is sixty-two years old. This one is built to last a century. Because the city and the state made it easy to acquire the land, we were able to keep the new building right across from the old one," says Wirtz. "It's good for the whole community here. The new Chicago Stadium is the lynch pin for development on the West Side."



THE NEW CHICAGO STADIUM WILL HAVE NO EQUAL IN SPORTS ARENAS

The most expensive sports arena ever built, the new Chicago Stadium will

luxury private suites on three levels, the lowest ones being only 19 rows from the playing surface. All suites are expected to be sold for both teams for the whole first year.

A total of 21,500 plush, cushioned theater-style seats will be available for basketball — 20,500 for hockey and 23,000 for concerts — all designed to put the spectators on top of the action with superb views of the playing surface and absolutely no obstructions. Special attention has been given to handicapped facilities, including over 200 handicap

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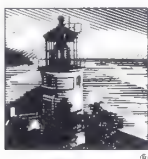
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Other amenities include escalators to every level, parent/children "waiting rooms," enclosed ticket lobbies, cash stations on every level, twice the number of concession stands and three times the restroom space of the current arena, a novelty store, and television monitors throughout the building. Above the playing surface an eight-sided video scoreboard with replay capabilities and a comprehensive statistical information package will keep all fans up to the split-second on every play.

WORLD CUP SOCCER IN A WORLD CLASS CITY

When the World Cup comes

to America for the first time ever in 1994, it will come first to Chicago, home of the U.S. Soccer Federation. Bidding against other American cities, Chicago won the honor of hosting the opening ceremony and the first game of the XV FIFA World Cup at Soldier Field in June of 1994.

"Playing host to the opening game of the 1994 World Cup will focus the attention of the world squarely on Chicago," says Alan I. Rothenberg, president of the United States Soccer Federation and Chairman of the Organizing Committee of the 1994 World Cup.

The opening ceremony, a sparkling presentation which promises to rival those of recent Olympics, signals the



"IF YOU
THOUGHT
CHICAGO WAS
A GREAT
BUSINESS CITY
BEFORE, YOU'RE
GOING TO LOVE
WHAT WE'RE
DOING FOR BUSI-
NESS NOW."
RICHARD M. DALEY
MAYOR

start of the 30-day event involving 24 nations and marks the first of 52 games that will be watched on television by a cumulative international viewing audience of more than 30 billion people.

"The World Cup, the culmination of a two year elimination process involving 141 nations, is truly the premier world team sporting event," continues

Rothenberg. "We are confident that Chicago and the other eight venue cities will join forces to stage the best World Cup ever, dating back to the inaugural competition in 1930."

The first game of the 1994 World Cup on June 17, 1994 will feature the defending champion Germany, and will be played in Chicago, as will four others.

A CITY FOR PEOPLE WHO WORK

Being a leading player on the world stage is a welcome opportunity for Chicago. But the role is not a new one. As the transportation center of the

country, Chicago is to being at the heart of what's happening

No other American city offers businesses this opportunity: You start the work day because the East is an hour ahead, and

can end the work day late because the West Coast is two hours behind.

Then, after getting more work than the competition, when you're ready for an energetic, dynamic environment, just step outside your door. Chicago at night puts world-class entertainment at your feet — from haute couture to professional sports, and leisure fun in between.

"Chicago is poised for a dramatic emergence in the nineties as the most dynamic among American cities," says Mayor Daley. "Our next large-scale plan

will bring an international theme park and casino to our city. This project will create 35,000 new jobs and \$500 million in new revenue and will enhance Chicago's reputation for convention tourism, transportation and recreation."

"If you and your business are looking for a place to grow, we urge you to plant your roots in Chicago. We are the crossroads of American business."

FOR MORE INFORMATION ON THE CITY OF CHICAGO, CONTACT THE DEPARTMENT OF PLANNING AND DEVELOPMENT, 100 CONGRESS PARKWAY, SUITE 100, CHICAGO, IL 60605 (312)747-1000.

Mr. Bognore is a freelance writer working in conjunction with USA Chicago, Inc. He is a regular contributor to Business Week's Special Advertising Section. DESIGN: PARHAM SANTANA, INC.

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A TREAT FROM THE STREET: FREE FINANCIAL TIPS

A free lunch on Wall Street? If you're looking to evaluate your financial-planning strategy without shelling out big bucks for professional advice, you may need only seek out your friendly broker. Some securities firms and mutual-fund companies are offering a wealth of free services to help you plan for such epic events as paying for college, funding your retirement, and putting your estate in order.

It's true the companies have devised these programs to entice you to invest in their mutual funds, annuities, and other financial products. Nevertheless, you can learn a lot from them about how to handle your investments—without any obligation to buy. "The advice is going to be generic, by definition," says Don Phillips, publisher of financial journal *Morningstar Mutual Funds*. "But in getting people used to thinking about appropriate diversified investment, it serves a valuable function."

The programs, which can help seasoned investors as well as novices, go under such names as Shearson Lehman Brothers' Strategic Asset Allocator and the Dreyfus Rollover Decision Analysis. Say your company has a tax-deferred 401(k) retirement plan and you're not sure what investment options to choose. These programs can help you decide how to distribute your 401(k) savings. Or you may simply want to

check your assumptions against the various computer models.

You don't have to be a customer to take advantage of these services. At Shearson, Merrill Lynch, Prudential Securities, and PaineWebber, you simply call to set up an appointment with a financial consultant. In the office, you'll fill out a brief question-

naire about your financial history and goals. "There may be only six questions, but some of them are really hard," says Shelley Freeman, Shearson's director of Personal Financial Planning. "Ranking your priorities is a pretty thoughtful process."

After the consultant feeds your responses into a computer, you'll get an elaborate

printout that includes columns of data lists, come, investments, and falls, all projected out to the middle of the next century. Pie charts show the breakdown of your investments vs. how they ideally be distributed. This information is in hand, and the representative can view the numbers.



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elementary course in
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or instance, one 40-
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tax-deferred retire-
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enough. So she fed
into Shearson's Stra-
sset Allocator pro-
ject how much college
cost for the four years your
child is there, how much
you'll have to make before
taxes to cover it, and how
much you'll need to put away
now.

Merrill Lynch's College-
Builder program uses the hy-
pothetical case of 29-year-old
Joe College, who is in the 28%
tax bracket and has a one-
year-old daughter. When she
goes to college in 2010, the
average cost for a private uni-
versity will have grown by 7%
a year, from \$14,403 today to
\$48,681. Joe will have to make
at least \$72,345 before taxes
to cover that.

The program calculates
that he would need to invest
\$12,233 today in Merrill's ver-
sion of a zero-coupon bond,
called a TIGR, to meet college

costs in 2010. "TIGRs are a tra-
ditional way to do long-term
investing because they're
safe, and you know exactly
how much you'll have at any
point in the future," says
John Wellington, an assistant
vice-president.

Of course, you don't have
to buy the Merrill product.
Armed with this advice, you
could buy any zero you want.
Likewise, you don't have to
invest in a T. Rowe Price mu-
tual fund just because you
use the company's Retirement
Planning Kit. The kit can help
you figure out how much
money you will need to stash
away each year to afford a
retirement income that is 60%
to 80% of your yearly pay at
the end of your working life.
Depending on how long you
live, you may have to sustain

How to slice up a
portfolio is at the core
of many programs

WHERE TO GET EXPERT PLANNING ADVICE FOR FREE

Company/Phone	Name of service	Comments
DEAN WITTER Contact your local branch	Pre-Retirement Income Management Evaluator	You work directly with an account executive
DREYFUS 800 782-6620, Ext. 8092	Investment Allocation Service, Rollover Decision Analysis	You answer a ques- tionnaire by mail; they send your re- sults and comment
MERRILL LYNCH 800 338-2814; 236-5500 for inside New York	CollegeBuilder, Estate Planning, Personal Portfolio Analysis, Retirement Builder, Rollover Analysis	Most comprehen- sive of the free ser- vices; offered in person or over the phone
SHEARSON LEHMAN 800 542-5421, Ext. 9595	Education Funding Analysis, Lump Sum Illustration, Retire- ment Planning Analy- sis, Asset Allocator	You work with a consultant at a Shearson office
T. ROWE PRICE 800 541-0295 800 541-4021 (for diskette)	College Cost Worksheet, Retiree's Financial Guide, Retirement Plan- ning Kit	Do-it-yourself workbooks that you can review with a Price representative

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more.

The kit contains a work-
book that allows you to do the
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waiting for the results. It also
includes general information
about retirement, as well as
an introduction to T. Rowe
Price's mutual funds and how
they might help you.

The company has answered
376,000 requests for the Re-
tirement Planning Kit since it
first came out at the end of
1989, says Vice-President
Steve Norwitz. For \$15, you
can get an easier and more
engaging computer version
called the Retirement Plan-
ning Kit for PCs, also from T.
Rowe Price.

'FREE MAKE-OVER.' Retirees
may be particularly interested
in programs that help them
decide how to handle with-
drawals of tax-deferred retire-
ment funds. Shearson, Merrill
Lynch, Dreyfus, and others
will calculate the options,
comparing, for example, the
tax consequences of taking
out an entire lump sum vs.
using five- or 10-year income
averaging.

All this free advice can be
intimidating. It might be hard
to turn down a product some-
one is selling when they've
just taken the time to custom-
ize a financial plan for you.
And it's tempting to think
that the first guy with the
first program can solve all
your portfolio problems. "It's
like the free make-over that
gets you in the door," says
John Markese, president of
the American Association of
Individual Investors. "My
fear is that, like free semi-
nars, people don't realize
there is a bias and a pitch."

As long as you do under-
stand that, there's important
knowledge to be gleaned from
these services. "Anything
that gets you thinking about
what investments to make to
attain certain goals is provid-
ing a real service to the client,
and I applaud that," says
Norman Boone, a San Fran-
cisco financial planner.

So arm yourself with some
healthy skepticism and learn
as much as you can. After all,
the price is right. *Pam Black*

Leisure

PEAK-SEASON DEALS FOR SLOPE LOVERS

For the country's ski areas, things have been pretty much downhill since 1987, when the sport boasted more than 18 million enthusiasts. Last season, 2 million fewer were on the slopes. The resorts hope an avalanche of special deals will halt the slide this winter.

With the average all-day lift-ticket price now \$29 on weekends, many operators let kids ski free. For example, at nine spots in New Hampshire's White Mountains, an \$80 five-day child's ticket comes free with each \$149 adult pass. In some places, such as Okemo in Vermont, kids six and under ski free; during off-weeks at Mount Snow, the age limit is 12.

Grandparents and older

parents can get cost-cutting deals at more than 100 areas—including Mammoth Mountain in California, Keystone in Colorado, and Waterville Valley in New England. Special plans for seniors provide free or half-price tickets to skiers over 55, 60, or 65. And almost everywhere rides free at 70.

Among other deals, first-time skiers get free lift tickets, equipment, and lessons in early December at such spots as Jay Peak in Vermont and Crested Butte in Colorado. And accomplished skiers get the freebie if they want to learn how to snowboard.

SLUSH CHECK. In better times, if you bought a multiday ticket to lower the daily cost, most places had a no-refunds policy, even if rain or icy conditions made skiing impossible. Now, buyers of two-day tickets at Stowe can get rain



checks or refunds if they decide by 8:50 a.m. to forego the second day on the slopes.

A different discount technique is a "frequent skier" card. At Stratton, skiers pay \$25 for a card that cuts \$10 to \$17 off the \$29 price of lift tickets throughout the season.

At Attitash in New Hampshire, skiers pay \$18 to \$96 for a Smart Ticket. The magnetic stripe is programmed with matching numbers "units." A turnstile each lift electronic subtracts units in relation to the lift length. "You pay just the runs you take," says Phil Vink, Attitash CEO.

Faced with a slowdown, the top Colorado resorts called off their longtime rivalry. Vail, Beaver Creek and Aspen/Snowmass/Leadville are joining to offer a Premier Pass, port good for 10

days of skiing at all mountains for \$38 a day. That's \$4 to \$5 off usual rates, and the deal includes a two-hour bus ride between the areas. The spectacular view of the 15-mile Glenwood Canyon is worth the price of a day's skiing. Don D.

Smart Money

IT MAY BE TIME TO TAKE A DIP IN THE MORTGAGE POOL

Collateralized mortgage obligations have gotten a lot of bad press in the past year. Heavily marketed to yield-seekers because they pay more than comparable Treasury securities and come with a government guarantee of principal and interest, CMOs are nevertheless among the trickiest investments around. Their biggest risk has risen as interest rates have fallen: When homeowners refinance their mortgages, CMO holders get their principal back early and are forced to reinvest at lower rates. That so-called prepayment risk is as manageable as a Great Dane puppy.

AN ALTERNATIVE. But some fixed-income money managers think now may be a good time for investors to reconsider CMOs as a higher-yield alternative to certificates of deposit and Treasuries. First of all, prepayments are fewer than they were a year ago. That is because mortgage rates, now at their low-

est level in 20 years, have been down long enough that the people who want to refinance already have done so. In some cases, falling property values or incomes have trapped mortgage holders in their current loans because

'Prepayments of 10%-and-up coupons will slow down'

they couldn't qualify for new ones.

Also, selective buying of older or shorter-term CMOs can reduce the prepayment risk further. "You can pick your way through the mar-

ket and find attractive securities," says Bradley Tank, portfolio manager of the \$80 million Strong Government Bond Fund. Tank says his fund is normally one-third invested in CMOs and other mortgage-backed securities; now he has ramped that up to one-half.

He cites 15-year mortgage passthroughs—government-agency mortgage pools repackaged by an investment company—issued in 1985. Such bonds have coupons of 8% to 9.5% and are trading at a premium of 104 to 106. For one thing, says Tank, they have already gone through three major refinancing cycles. Also, "you're seven years into the amortization schedule and fairly heavily

into principal. So prepayment will affect the bond less."

Similarly, the \$441 million Eaton Vance Government Obligations fund buys called seasoned mortgage loans taken out in the 1960s or '70s at rates at or below current levels. The rationale is that people already paying single-digit mortgage rates don't have the incentive to refinance now.

MATURITY. Can individual CMO investors emulate these strategies? "I would argue strongly that prepayment of 10%-and-up coupons will slow down," says Robert Andres of investment firm Martindale, Andres & Gerald Guild, fixed-income manager at Advest, is quite so sanguine. "On the other hand," Guild says, "a wonderful thing about bonds is that my mistakes mature at face value." But remember that if refinancings pick up again, CMOs may mature long before you expect them to. Joan Warren

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Food

FOR THE LEAN AND GREEN GOURMET

Eat your vegetables. That's not Mom talking; it's health experts, who say consuming more vegetables—plus fruits and grains—reduces the risk of heart disease and cancer. Nutritionists recommend seven servings of vegetables or fruit a day.

Now, there's a bumper crop of new cookbooks to make diets leaner and greener. Many aren't strictly vegetarian. But with their (mainly) easy-to-follow recipes, they offer tasty ways to boost the vegetable component of your diet.

Sweet Basil, Garlic, Tomatoes, and Chives (Harmony: \$20) is one of the best. Its dishes, inspired by Tuscan and Provençal cooking, include items both fancy (zucchini-and-rice torte, baked dumplings with pumpkin) and simple (bell-pepper risotto). The book falls down only in its distracting commentary about the author's travels.

Gorgeous photographs make *The Inspired Vegetarian* (Stewart Tabori & Chang: \$24.95) a beautiful book. Organized into courses for easy meal planning, it blends familiar ingredients in unfamiliar ways: coming up with dishes such as baked cheese with figs and arugula, and red pepper soup with cheese and herb floats. Try a few recipes, and you've got a tasty meal.

VERSATILE. *The Cook's Garden* (Viking: \$25) also gets good marks for presentation, but it's illustrated with drawings and organized by vegetable. Many recipes are innovative—such as slivering zucchini into "pasta" and adding pesto sauce. Some, though, are a bit rich for low-fat diets.

Legumes, anyone? Try *The Bean Cookbook* (Simon & Schuster: \$20), which pictures 14 kinds of beans, then tells how to store, freeze, and cook



LEEK AND SAFFRON STEW

Ingredients: 2T extra virgin olive oil, 2 cloves garlic, minced; 6 scallions, chopped; 2 lb. ripe tomatoes, peeled, seeded, chopped; 6 large leeks, white part only, coarsely chopped; generous pinch powdered saffron; 1 lb. new potatoes, halved or quartered; salt and pepper to taste

- 1 Heat olive oil in saucepan, sauté garlic and scallions until soft, about 7 minutes
- 2 Add tomatoes and cook until they start to break down into a sauce, about 5 minutes. Add leeks, water to cover, saffron
- 3 Bring to a boil and stir in potatoes. Cover and simmer until potatoes are cooked through, about 20 minutes. Season with salt and pepper. Serve immediately, at room temperature, or chilled. Serves 4-6

DATA: Adapted from *Sweet Basil, Garlic, Tomatoes, and Chives* by Diana Shaw

them. And that doesn't mean merely boiling and spicing them. Here are directions for jalapeño beans, mixed vegetable pâté, lentil-onion soup, and sour-cream baked lima beans.

Riso (Crown: \$16), a handsome book, makes rice a surprisingly versatile main ingredient, combined with all sorts of vegetables (or sometimes meat and fish). Among its dishes are risotto with barolo wine, and rice with pistachio and red pepper. The variations on basic recipes make *Riso* good for those who don't like to fuss in the kitchen.

Several publishers offer little cookbooks, in case you want to tiptoe toward healthier eating. Try *Main-Dish Soups* and *Main-Dish Salads*

(Bantam: \$10 each), from a "little vegetarian feasts" series. Each begins with basic facts, then cuts to the chase: 20-some recipes for unusual dishes—such as garlic soup with fusilli and broccoli.

Similarly, *Lee Bailey's Tomatoes* (Clarkson Potter: \$14) contains more than three doz-

en recipes. Its mouth-watering photos make you try green-tomato risotto or a cold soup of tomatoes and sweet potatoes. Not to mention such green-tomato-and-apple soups.

A little less original, *Goodness Book of Peas and Lentils* (Clarkson Potter: \$12) and *Goodness Book of and Root Vegetables* (Clarkson Potter: \$12) also entice, with dishes as eggplant and bean sauce and potatoes (fierce potatoes).

LENTIL BURGERS. Lentils stir you to exotic, *Thai Vegetarian* (Clarkson Potter: \$12) full of rice and noodle, grilled spicy mushroom, white-cabbage soup, and more. *The Kopan* (Chronicle: \$9.95) is the same with Tibetan recipes.

Hooked on health? The 15th-anniversary of the classic *McGraw-Hill Cookbook* (Ten Speed: \$12) revises the recipes, cuts fat, and adds 25 new ones, such as pasta with a red onion sauce. With 150 recipes for concoctions as lentil-walnut and mushroom, *Moosewood* is for vegetarians—but meat-eaters enjoy many of its dishes.

Finally, there's *Chef Gherardo at Midnight* (Clarkson Potter: \$19). Besides offering vegetarian recipes (e.g., vichyssoise, Chinese eggplant salad), it expounds on chicken-soup theory. Foods can comfort, e.g., Garlic soup, for example, relieve colds or sinus.

If nothing else, they should convince you of one thing: You don't have to be a vegetarian to love vegetables. *Just*

Worth Noting

■ **TAX CUTS.** Coopers & Lybrand projects that inflation adjustments in 1993 tax brackets will mean savings for some taxpayers. For example, next year's tax bill should be \$223 less than this year's for married couples with taxable income of

\$100,000: \$132 less for singles with \$75,000 in income.

■ **MAJOR MATTERS.** *Every Senior Citizen Knows*, a new 64-page booklet from business-law firm Commerce Clearinghouse, gives basic information on health care, estate planning, IRAs, and other concerns for aging individuals. (800 248-3248).

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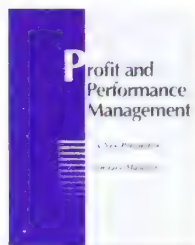
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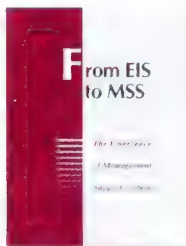
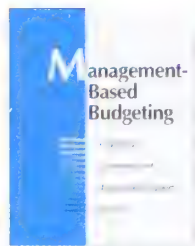


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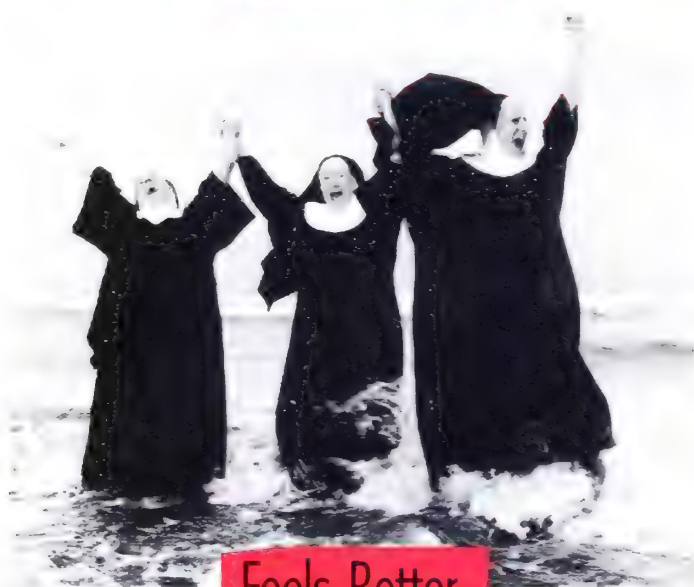
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FIND OUT ON
PAGE 183



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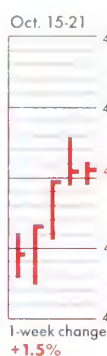
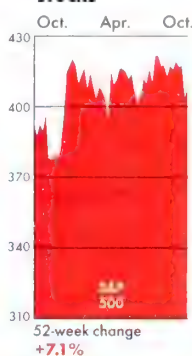
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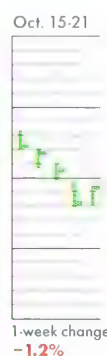
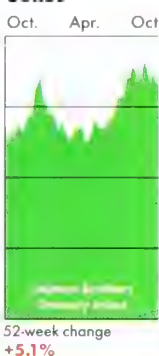
Investment Figures of the Week

STOCKS
 for bonds. Benchmark
 Treasury bonds and short-
 term bonds fell heavily on Oct.
 20 as investors dumped fixed-in-
 comes in anticipation of
 a rise in spending under a
 new administration. The bond
 rally helped revive the sag-
 ging stock market. But the same expec-
 tation of a win led to a 14-
 point drop in the Dow Jones
 average on Oct. 19. Two
 of the week were IBM
 earnings, which reported
 strong earnings.

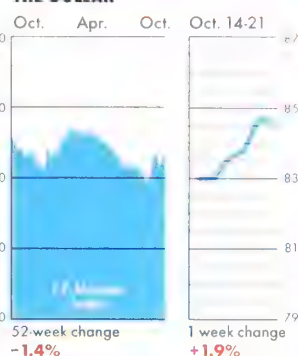
STOCKS



BONDS



THE DOLLAR



1 week change
 +1.9%

MARKET ANALYSIS

INDEX	Latest	% change Week	% change 52-week
INDUSTRIALS	3187.1	-0.3	4.8
500 (Russell 1000)	220.8	1.6	8.0
500 (Russell 2000)	195.5	2.7	6.9
500 (Russell 3000)	234.9	1.7	8.0

INDEX	Latest	% change (local currency) Week	% change 52-week
FINANCIAL TIMES 100	2645.7	2.8	3.3
NIKKEI INDEX	17,141.5	-1.2	-30.9
DAX COMPOSITE	3252.6	1.8	-6.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.97%	3.00%	5.18%
30-YEAR TREASURY BOND YIELD	7.61%	7.50%	8.08%
S&P 500 DIVIDEND YIELD	3.04%	3.09%	3.24%
S&P 500 PRICE/EARNINGS RATIO	21.8	21.1	20.8

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	414.1	414.1	Positive
Stocks above 26-week moving average	41.8%	40.6%	Neutral
Speculative sentiment: Put/call ratio	0.44	0.54	Positive
Insider sentiment: Vickers sell/buy ratio	1.82	1.77	Positive

SECTOR GROUPS

LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
BANKING	24.0	42.8	CENTEX	32.2	56.6	29 3/4
INSURERS	12.5	23.8	AMERICAN INTERNATIONAL GROUP	16.3	37.0	112 3/8
CASUALTY INSURERS	11.2	27.6	CHUBB	17.7	35.6	88 1/8
STRUCTURED HOUSING	11.0	1.4	SKYLINE	11.8	14.5	17 3/4
SECURITIES BROKERS	9.1	25.0	MARSH & MCLENNAN	10.0	23.9	92

LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
TELECOM SYSTEMS	-13.6	-27.5	CRAY RESEARCH	-22.3	-53.5	20
MAINTENANCE AND TOOLS	-11.0	-8.9	BLACK & DECKER	-14.0	-0.7	16 7/8
	-10.2	-10.3	INCO	-15.3	-34.5	21 3/8
	-9.2	7.6	AMERICAN BRANDS	-11.4	3.7	41 1/4
TRUCKS	-9.2	7.7	GENERAL MOTORS	-13.1	-21.5	29 3/4

MUTUAL FUNDS

4-week total return	%	LAGGARDS	4-week total return	%
AMERICAN INDUSTRY	7.1	FIDELITY SELECT MEDICAL DELIVERY	-18.0	
LYNCH TECHNOLOGY A	5.3	UNITED SERVICES GOLD SHARES	-17.8	
SHARES	4.8	LEXINGTON STRATEGIC INVESTMENTS	-17.2	

52-week total return	%	52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-60.9		
UNITED SERVICES GOLD SHARES	-51.1		
SCHIEF AGGRESSIVE GROWTH	-33.6		



TOP PERFORMING PORTFOLIOS

Units						
Value present						
\$10,000						
Value year ago						
Portfolio						
Indicate						
Annual returns						
						
	Treasury bonds	U. S. stocks	Money market fund	Gold	Foreign stocks	
	\$11,286	\$10,953	\$10,322	\$9,515	\$9,375	
	-1.17%	+1.51%	+0.05%	-0.33%	-1.18%	

page are as of market close Wednesday, October 21, 1992, unless otherwise indicated.
 include S&P 500 companies only, performance and share prices are as of market close

October 20. Mutual fund returns are as of October 16. Relative portfolios are valued as of October 20. A
 more detailed explanation of this page is available on request

THE LESSONS OF CAMPAIGN '92

It has never been BUSINESS WEEK's practice to endorse political candidates, and we don't intend to break with that tradition now. But there are some lessons that can be drawn from the current campaign.

First of all, the campaign itself was highly interactive. By appearing on TV call-in shows and town-hall meetings, the candidates got voters more involved than usual. The second Presidential debate, in particular, showed that ordinary citizens, with their penetrating and intelligent questions, could force the candidates to discuss issues, not personalities. Granted, our economic problems tended to concentrate the mind wonderfully, but we'd like to think that the campaign itself has had something to do with the increase in voter registration this year.

Ross Perot earns our praise for almost single-handedly injecting that great unmentionable, the budget deficit, into the campaign dialogue (page 30). He talked about the pain the nation will have to endure, including higher income taxes and an unpopular but sensible gasoline tax, and raised some tough issues, such as airline mergers with foreign carriers and the health of the banking industry (below).

Bill Clinton has also run a singular Presidential campaign. It's the conventional view that Clinton got where he is today with centrist buzzwords, each one serving to drive a tiny wedge into an increasingly fragile GOP coalition. In fact, Clinton is the only candidate in the race with a comprehensive philosophy of economic growth in the 1990s. Clinton believes that a blend of public and private investment in education, training, health care, and technology will spur the U.S. economy's anemic growth rate and make the nation a stronger international competitor.

No one really knows if his plan to boost federal spending by \$220 billion over four years will spur growth without hyping inflation. But Clinton has rejected increased social spending in favor of targeted investment in America's "knowl-

edge base" that he hopes will produce a payoff in jobs, es, and productivity. Too good to be true? Perhaps. But if he can deliver most of what he promises, he will have outdistanced the Democrats as a more centrist party.

President Bush has provided some of the starkest lessons of the campaign. If he loses, pundits are likely to see the August GOP convention as a turning point. To shore up his base, the President allowed the far right wing of his party to dominate the proceedings. The extremist messages delivered by the likes of Pat Buchanan and Pat Robertson were nasty and divisive on such issues as immigration and family values." By alienating many working women and calling for a ban on abortion even in cases of rape or incest, he went farther than President Bush ever did. If he loses, the lesson will be clear: In choosing its President, America must reject political extremism, left or right.

More fundamental, of course, are America's economic difficulties. Despite a generally excellent record on foreign policy and the collapse of communism that occurred under his watch, the President seemed stunningly disengaged from the economic problems. It wasn't just the recession, the budget, or the debt. It was also the feeling of many voters that the President had lost touch with their painful everyday reality.

All three candidates deserve great credit for refusing to appeal to racial divisiveness. Perot said it most plainly: "You hate people, I don't want your vote." The Democrats largely refrained from populist demagoguery. And from the GOP, there was no Willie Horton ad this time around and no code-word appeals to racial resentment. Some will conclude that this means the Republicans can't win without further polarization. We prefer to hope that this society, growing more polyglot by the day, recognizes that its problems can be overcome only if we transcend ethnic differences and fix what is broke. This campaign, more high-minded than usual, may be a good portent.

ONE GOOD TURN IN BANKING REFORM...

It's called the "December Surprise." Under a law that Congress enacted last year, after Dec. 19 federal regulators will be forced to seize or close many banks unable to meet stiff new capital requirements (page 142). Right now, regulators can seize institutions only when all of their capital is gone. But Congress decided the tougher approach was necessary to prevent the kind of regulatory forbearance that added billions to the cost of the cleanup of failed savings and loans. The Democratic leadership, with the consent of the Bush Administration, set D day for six weeks after the election. That set the stage for what could be the closure of dozens of troubled banks when the new law takes effect.

Although it comes late, the legislation is a sign that Washington has begun to confront the banking industry's problems—and their financial impact on the government. By ena-

bling regulators to act when a bank may still be attractive to a buyer, the new law could save taxpayers vast sums.

But lawmakers haven't quite finished the job. It is more important that Congress find the guts to scale back deposit-insurance coverage to a maximum of \$100,000 per individual. Large depositors may howl, but surely they have the financial sophistication to find banks where their money would be safe. And banks would have a bigger incentive to keep their balance sheets clean.

The Treasury Dept. has already lent the banking industry \$70 billion to cover the losses in closures. While the industry insists that the money will be repaid, there is no guarantee that Uncle Sam won't end up footing part of the bill. Stricter limits on deposit-insurance coverage could help pay the ultimate tab.

Beware of rabbits.

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IBM ThinkPads are easy on the eyes in more ways than one. Immediately apparent is their attractive silhouette. But their beauty extends far beyond the superficial. The 700 series screens rival desktop display clarity. All screens are eminently

*Warranty information available from the Personal Systems HelpCenter or an IBM authorized dealer. 700T warranty is available in the U.S.A. and Canada only. IBM is a registered trademark and ThinkPad, HelpWare and HelpCenter are trademarks of International Business Machines Corporation. © 1992 IBM Corp.



Use it wherever



DETROIT

PURGE AT GM



STEMPEL

The board has pushed out the CEO — and the management

heaval isn't over yet. Will GM finally fix its problems?

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SURGE AT CHRYSLER



IN: EATON

Profits are up. The new LH cars look like winners.

Will the good times roll on after Lee Iacocca leaves?

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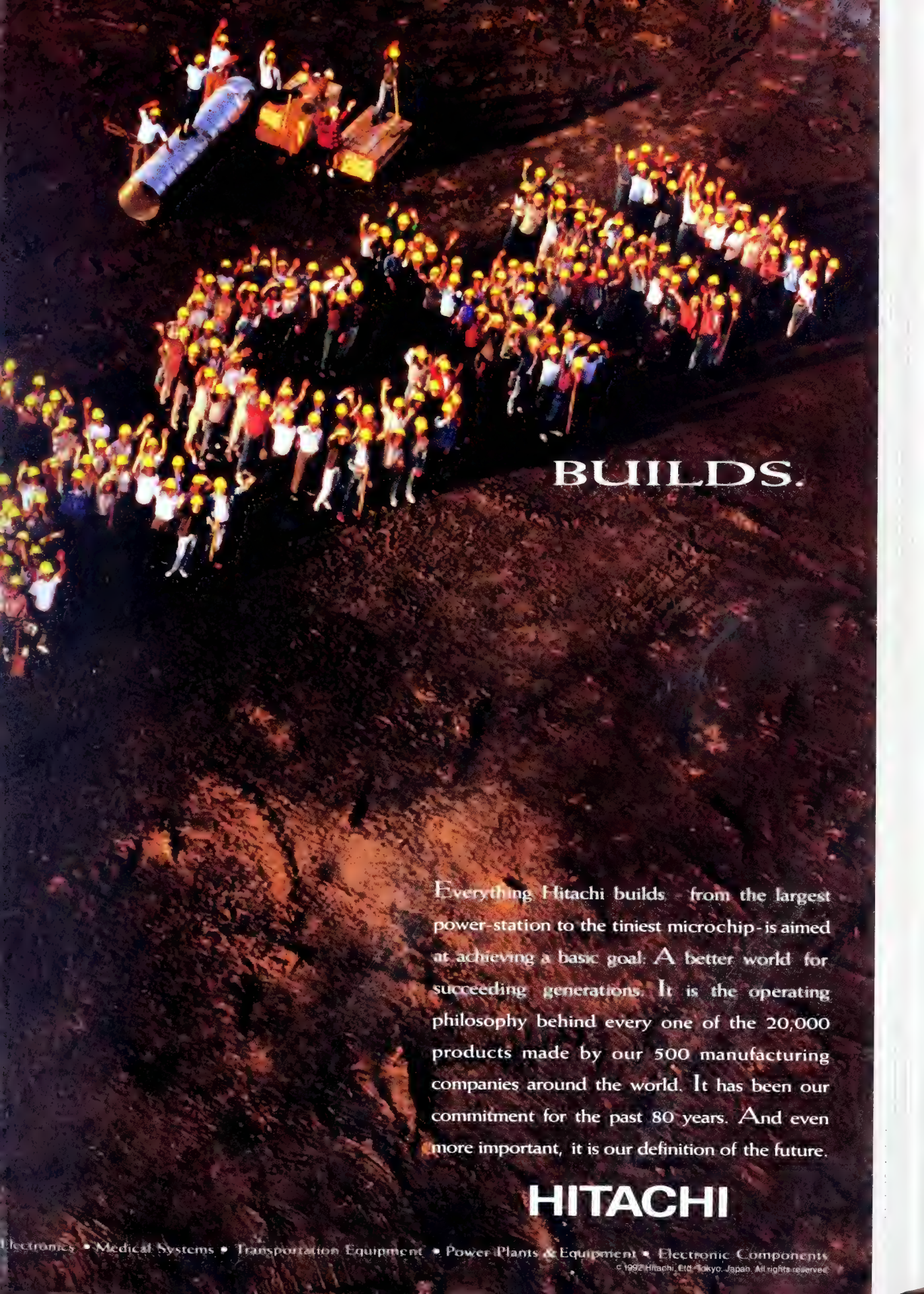
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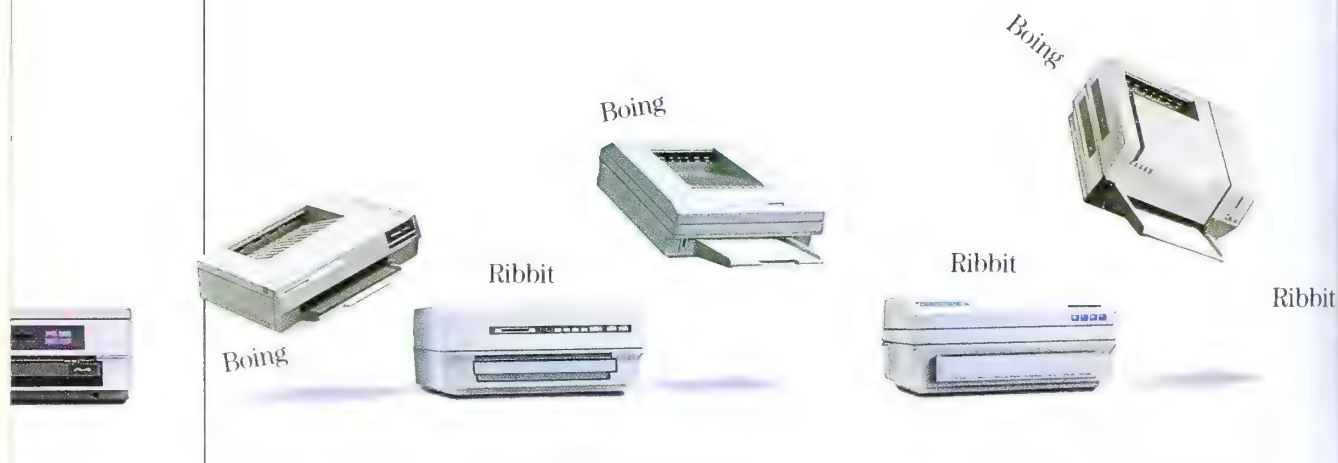
Everything Hitachi builds—from the largest power-station to the tiniest microchip—is aimed at achieving a basic goal: A better world for succeeding generations. It is the operating philosophy behind every one of the 20,000 products made by our 500 manufacturing companies around the world. It has been our commitment for the past 80 years. And even more important, it is our definition of the future.

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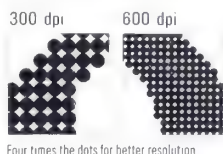
Other laser printers play leapfrog trying to catch up with the HP LaserJet.



Of course, luck won't get them far. Because the new HP LaserJet 4 printer sets such high standards for performance, value and ease of use that no other laser printer comes close.

Higher resolution. More typefaces.

With the HP LaserJet 4, HP has moved the standard for print quality from 300 dpi to 600 dpi. That's twice the old resolution, but at less than the old 300 dpi price.



Four times the dots for better resolution

The HP LaserJet 4 was designed for 600 dpi printing from the ground up. Which gives you the best 600 x 600 dpi resolution ever for noticeably crisper, clearer text and graphics.

Add microfine toner and HP's exclusive Resolution Enhancement technology, and you get razor-sharp edges and much smoother curves. For impactful documents that really stand out.

You can dress them up with 45 scalable typefaces built right in. No matter what kind of document you're producing, your needs are covered. You'll also find it is easier and cheaper to use. You don't have to hassle with downloading fonts or buying accessory typefaces.

More speed, trays, and flexibility.

Thanks to a high-speed RISC processor, the HP LaserJet 4 also sets new standards

for speed. It prints many complex documents at rated engine speed, and 600 dpi graphics print at a true 8 pages per minute. It's faster on networks. And has 2 MB built-in memory and new memory management.

True 600 dpi creates rich, full-dimensional text and graphics

Smoother curves, no jagged edges, thanks to Resolution Enhancement

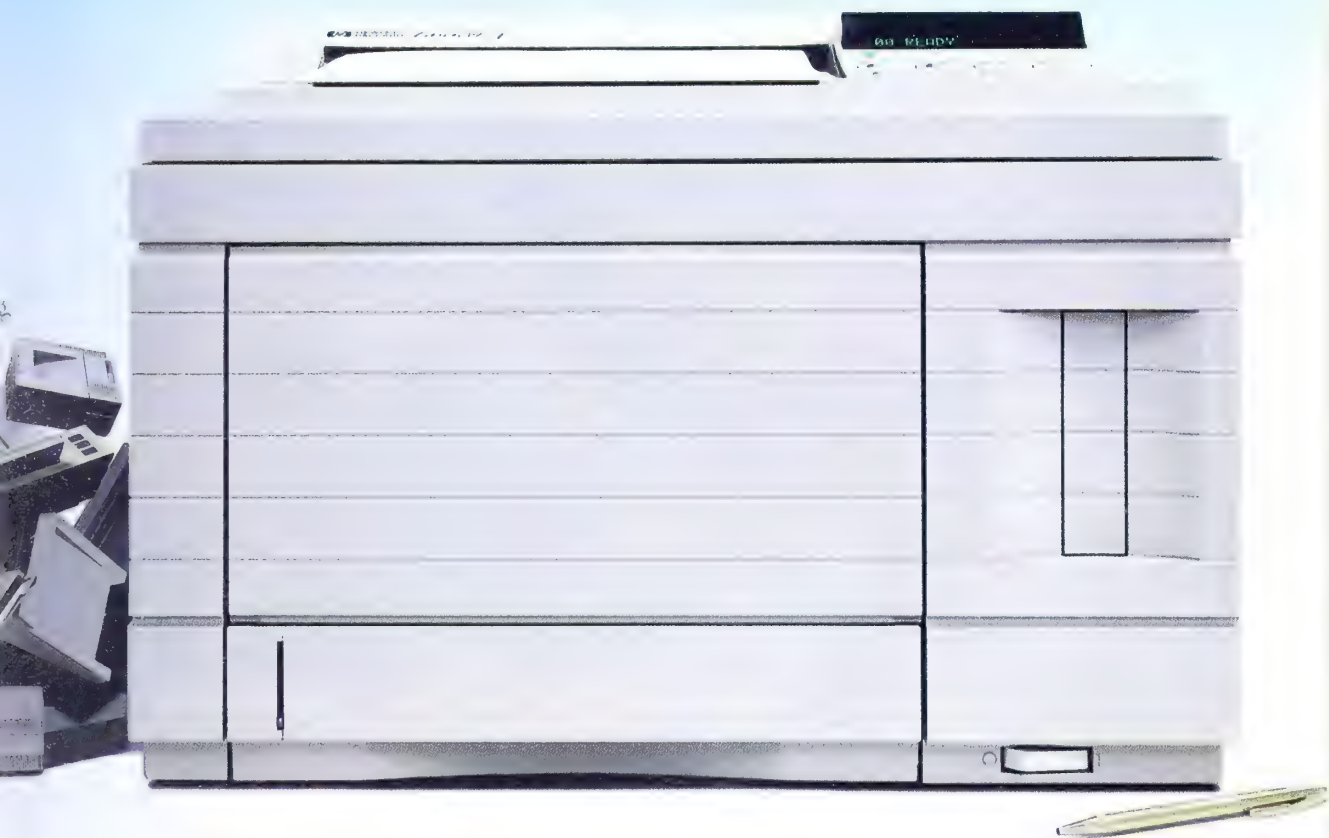
HP's microfine toner makes 600 dpi output look even sharper

45 built-in scalable typefaces let you produce a broad range of document styles

The HP LaserJet 4 is leaps and bounds ahead of the other laser printers. Our new generation provides superior output with 600 dpi, Resolution Enhancement technology and microfine toner. It also comes standard with 2MB memory and new memory management

LaserJet

Introducing the HP LaserJet 4. Good luck, fellas!



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output really
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VEHICLES OF HOPE: CHRYSLER'S JEEP GRAND CHEROKEE AND GM'S CADILLAC SEVILLE ARE THE KINDS OF HOT PRODUCTS BOTH COMPANIES NEED

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After the turmoil subsides, it will still have to fix massive problems, from low morale to slumping sales to shaky labor relations

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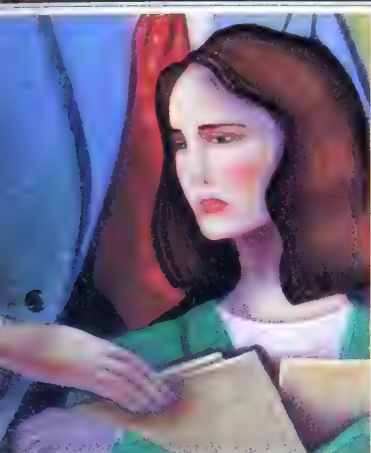
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Why Clinton the trade hawk has exporters quaking

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PLANE MAKERS: 'MAYDAY'

Tough times for airlines mean a real slog for manufacturers—and a shakeout may be coming soon

DOUGLAS FIGHTS FOR ALTITUDE

New planes have been disappointing, and its market share is just 12%

Marketing

REAL MEN BUY GROCERIES

Marketers are aiming more advertising at males who do the household shopping

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SEXUAL HEALING?

One year after Hill-Thomas, harassment complaints are up—and more companies are taking action

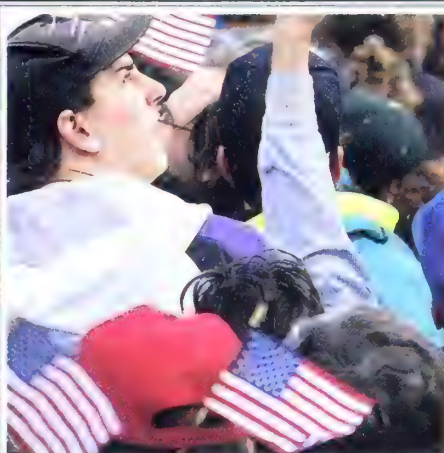
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DESPERATELY SEEKING STRATEGY

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Companies are targeting investors who understand their rhythms—and will go the distance



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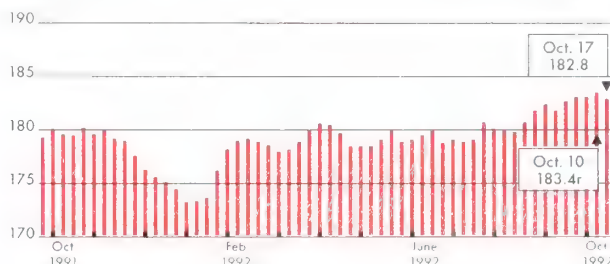
What's bad for General Motors . . . Oh, Canada

BusinessWeek Index

PRODUCTION

Change from last week: -0.3%
Change from last year: 1.9%

1967=100 (four-week moving average)

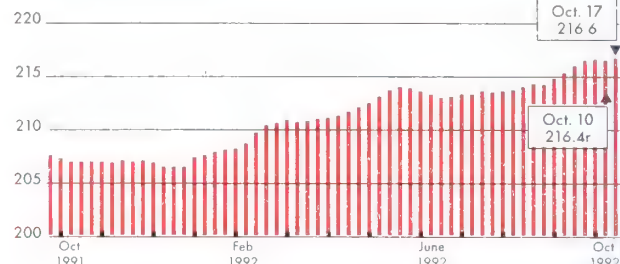


The production index dipped in the week ended Oct. 17. After seasonal adjustment, output of both autos and trucks fell. Truck production was down sharply. Output of both paper and paperboard declined, and rail-freight traffic edged lower. Steel output posted a gain, as did production of coal and lumber. Electric-power output was unchanged, as was crude-oil refining. Before calculation of the four-week average, the index fell to 182 from 182.3 the week before.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 4.7%



The leading index rose in the latest week. On the plus side, stock prices gained ground, failures of large businesses subsided, and the M2 money supply, although still falling, did not decline as fast as it did the week before. As for the downside indicators, bond yields rose, and the growth rate of materials prices fell for the fifth consecutive week. Real estate loans, while also falling, did so at a slower rate. Before calculation of the four-week average, the index rose to 216.9 from 216.7.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/24) thous. of net tons	1,733	1,693#	-1.8
AUTOS (10/24) units	130,936	113,517r#	-5.1
TRUCKS (10/24) units	94,764	87,073r#	11.3
ELECTRIC POWER (10/24) millions of kilowatt-hours	54,257	53,810#	3.3
CRUDE-OIL REFINING (10/24) thous. of bbl./day	13,560	13,469#	6.8
COAL (10/17) thous. of net tons	19,039#	18,809	-4.4
PAPERBOARD (10/17) thous. of tons	753.3#	776.8r	-4.0
PAPER (10/17) thous. of tons	747.0#	751.0r	-4.6
LUMBER (10/17) millions of ft.	471.7#	466.8	-7.1
RAIL FREIGHT (10/17) billions of ton-miles	21.7#	21.7	1.4

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SPPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (10/28)	123	122	131
GERMAN MARK (10/28)	1.54	1.51	1.67
BRITISH POUND (10/28)	1.58	1.61	1.74
FRENCH FRANC (10/28)	5.22	5.12	5.71
CANADIAN DOLLAR (10/28)	1.24	1.24	1.12
SWISS FRANC (10/28)	1.37	1.35	1.47
MEXICAN PESO (10/28)	3,118	3,118	3,067

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (10/28) \$/troy oz.	338.200	343.750	-5.9
STEEL SCRAP (10/27) #1 heavy, \$/ton	89.50	89.50	-7.7
FOODSTUFFS (10/26) index, 1967=100	195.9	196.4	-5.4
COPPER (10/24) ¢/lb	104.4	104.5	-5.6
ALUMINUM (10/24) ¢/lb	53.5	54.0	-2.9
WHEAT (10/24) #2 hard, \$/bu	3.55	3.61	-5.8
COTTON (10/24) strict low middling 1-1/16 in., ¢/lb	50.92	50.65	-12.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/23) S&P 500	415.03	409.49	7.3
CORPORATE BOND YIELD, Aaa (10/23)	8.04%	7.96%	-6.8
INDUSTRIAL MATERIALS PRICES (10/23)	96.7	96.9	0.8
BUSINESS FAILURES (10/16)	362	408r	-11.5
REAL ESTATE LOANS (10/14) billions	\$399.4	\$400.1r	-1.6
MONEY SUPPLY, M2 (10/12) billions	\$3,429.3	\$3,420.4r	1.2
INITIAL CLAIMS, UNEMPLOYMENT (10/10) thous.	368	383	-18.6

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
PERSONAL INCOME (Sept.) annual rate, billions	\$5,077.5	\$5,041.3r	4.4
ORDERS FOR DURABLE GOODS: MFG. (Sept.) billions	\$118.9\$	119.3r	2.0
BUSINESS INVENTORIES (Aug.) billions	\$838.1	\$835.4	2.2
MERCHANDISE TRADE BALANCE (Aug.) billions	-\$9.0	-\$7.3	-36.1

Sources: Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/12)	\$1,007.3	\$1,000.6	15.4
BANKS' BUSINESS LOANS (10/14)	277.8	277.5r	10.0
FREE RESERVES (10/14)	971	948r	32.5
NONFINANCIAL COMMERCIAL PAPER (10/14)	143.1	145.2	4.9

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/27)	2.91%	2.97%	5.10%
PRIME (10/28)	6.00	6.00	8.00
COMMERCIAL PAPER 3-MONTH (10/27)	3.47	3.46	5.26
CERTIFICATES OF DEPOSIT 3-MONTH (10/27)	3.40	3.42	5.33
EURODOLLAR 3-MONTH (10/24)	3.44	3.29	5.35

Sources: Federal Reserve Board, First Boston

When it comes to teaching youngsters how to read, General Foods has never been at a loss for words. Or at a loss for inspired literacy programs.

Their Reading Rocket workshop, for example, has been instrumental in instilling a real fondness and desire for reading in primary school children.

In addition, their Partners in Change, Jello Jigglers program, Star Serve, Maxwell House Learning Center, and involvement with Literacy Volunteers of Westchester County have greatly impacted the literacy problem

as a whole. Recognizing the importance of community service in the workplace, General Foods has supported programs like these since 1958.

This is the kind of corporate activism that the Points of Light Foundation hopes to promote. The Foundation is an independent, non-profit organization founded in 1990 to encourage community service. Like General Foods and other businesses that promote public service, we are committed to

solving serious social problems on a local level, with innovative solutions.

And even though employees are often required to give time to these social programs during working hours, companies have reported only positive effects on their businesses, such

as enhanced employee self-esteem and morale, and improved leadership and teamwork.

With the participation and support of our nation's businesses, we know that real progress

can be made in solving local social problems (as General Foods has demonstrated).

To learn more about corporate involvement in community service, please call the Points of Light Foundation at 1-800-888-7700. You're probably well aware of how desperately your community needs your help. There's no need to spell it out for you.

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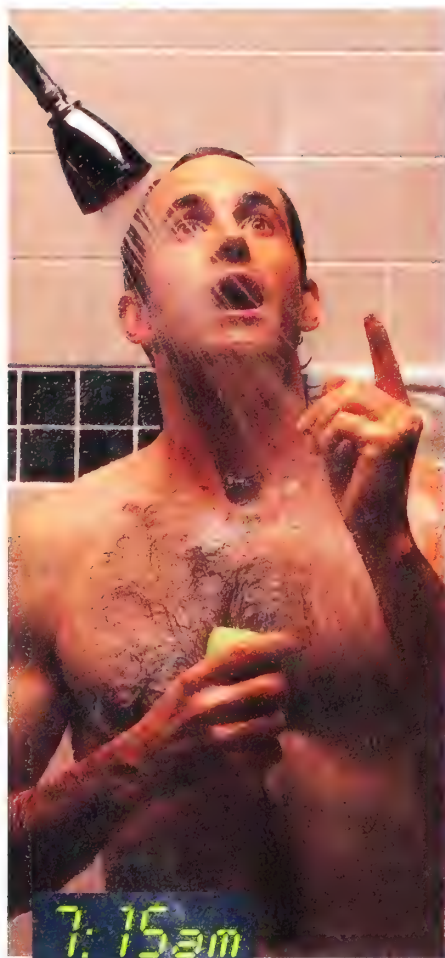
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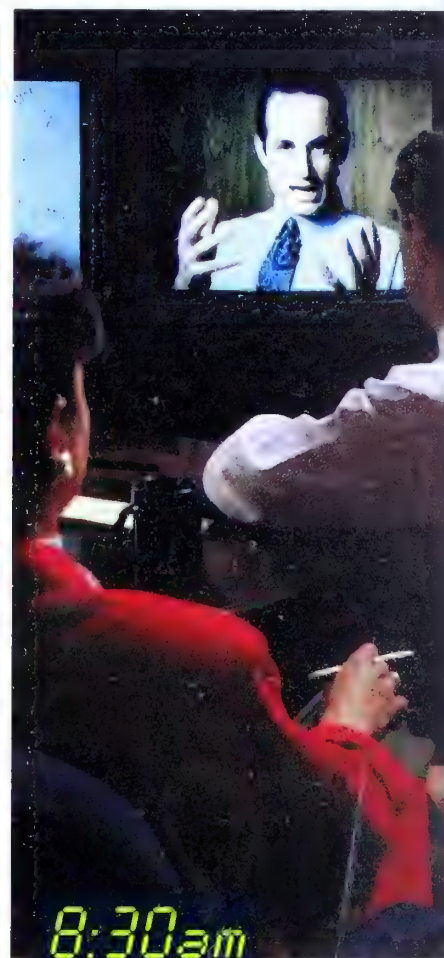
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**THE SECRET INGREDIENT
IN THE 'HOT SPOTS' RECIPE**

I read the article on "Hot spots: America's new growth regions" (Cover Story, Oct. 19) on the same day that the first Presidential debate took place, with its constant refrain of economic growth and job creation.

While the three candidates formulated any number of theories for kick-starting the economy, none of them mentioned the central thesis of your article: that an "uncommon alliance" among government, business, and universities has allowed the creation of high-tech growth zones throughout the country.

As president of Alfred University, I've seen how close cooperation among our university, government officials, and Corning Inc. executives could result, in a relatively short time, in the construction of not one but two Ceramic Innovation Centers, located in Alfred and Corning.

The result? For New York's economically troubled Southern Tier, the cooperation means jobs, now and into the future. Our preliminary market studies indicate that within 10 years, fledgling industries hatched by our incubators will generate 1,400 new jobs.

Edward G. Coll Jr.
 President
 Alfred University
 Alfred, N. Y.

You did a great job of identifying the factors essential for technology-based economic development. But in order for the Ceramics Corridor to become a reality, local leaders had to overcome historical rivalries between neighboring communities and convince others that competition in the global marketplace required partnerships between corporations and universities and between large and small companies, with government supplying the needed infrastructure.

Many communities have the elements to become hot spots—excellent universities, high-tech companies with growth potential, good quality of life, and the necessary infrastructure. What they need are people such as Rick Ott at Alfred University, Bob Ecklin at Corning, and others who understand that only by

collaborating can they achieve what is required for us to be internationally competitive.

Jana B. Matthews
 Boulder, Colo.

**THREE BOOS FOR BECKER
ON THE DISABILITIES ACT**

Gary Becker's article "How the disabilities act will cripple business" (Economic Viewpoint, Sept. 14) was most disappointing. The Americans with Disabilities Act (ADA) is civil rights legislation designed to enable the 43 million Americans with disabilities to be productive employees and purchasers of consumer goods, not to close businesses. The definition of "disability" in the ADA was taken directly from the Rehabilitation Act of 1973, and it has not created problems for government or business.

The ADA has generated unprecedented cooperation from the business community, with federal regulatory agencies ensuring the actualization of this landmark legislation. The Justice Dept. has provided technical-assistance grants to the American Hotel & Motel Assn., the Building Owners & Business Bureaus Foundation, the Food Marketing Institute, the National Conference of States on Building Codes & Standards, and the National Restaurant Assn. Plus, the Equal Employment Opportunity Commission plans to contract for ADA training for small and midsize businesses.

If we all positively approach implementation of this just law, all members of our society will benefit.

Rick Douglas
 Executive Director
 President's Committee on Employment of People with Disabilities
 Washington

As a physically disabled professor and founder of Pennsylvania's Day of the Disabled, I disagree strongly with the view that the Americans with Disabilities Act will have a negative effect on businesses or become just another make-work project for our lawyers.

While I do not look forward to seeing thousands of unnecessary ADA court cases, I am convinced that the threat in litigation alone will benefit the disabled

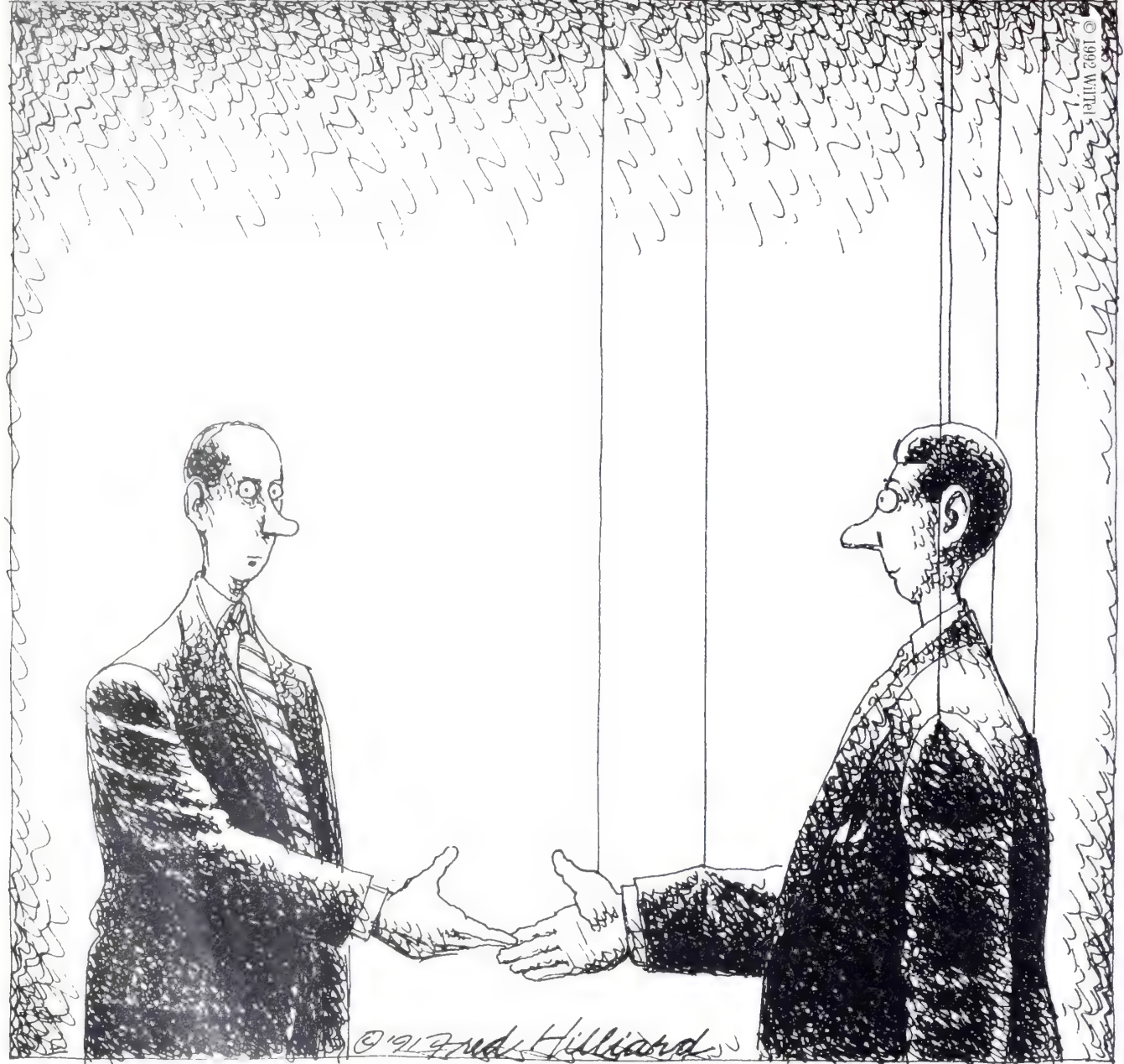
BUSINESS WEEK
 NOVEMBER 9, 1992 ***3292
 ISSN 0007-7135



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European circulation center: Detlevs Helt Helt, Montebell, Berlin, England. Telephone: (030) 240 11 11. Telex: 330300.
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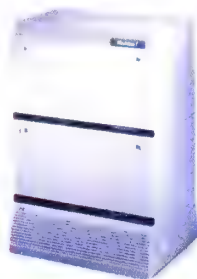
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TURN'S UP TECHNOLOGY

Readers Report

CORRECTIONS & CLARIFICATIONS

In a table that accompanied the story "For bankrupt companies, happiness is a warm *keiretsu*" (International Business, Oct. 26), we should have noted that Dai-Ichi Kangyo Bank Ltd.'s deal to acquire Kankaku Securities Co.'s computer center is pending and that the \$375 million price is an estimate by industry sources.

population more than litigation itself. In fact, many companies are spending significant amounts to adapt facilities to the needs of disabled people in order to prevent potentially expensive lawsuits.

The U.S. Constitution was written more than 200 years ago, and it is one of the best systems of law developed by man. It was purposely written to be so broad and vague that it requires nine special judges to explain it forever. The ADA was developed on a similar basis, and it may need a special ADA court, with wise judges interpreting this act for years to come. In fact, the ADA has made the American Constitution legally more accessible to citizens with disability grievances.

Adolph S. Butkys
Associate Professor of Marketing
Villanova University
Bethlehem, Pa.

The callousness displayed by Professor Becker toward the disabled reinforced a stereotypical notion—not of the disabled, but of economists. Tenured fellows have an uncanny way of turning people with disabilities, such as myself, to widgets and other pieces of mythically bought-and-sold property. Keep up the good work, Professor Becker.

John H. MacKinnon
Belmont, Mass.

RIGHT ON INFLATION, WRONG FOR THE WRONG REASONS

Your Commentary is right: "A little inflation could jump-start the economy" (Top of the News, Oct. 19). Only the analysis is wrong.

Inflation, like cholesterol, is of two kinds: the good and the bad. "Good" inflation is when prices rise because of increased demand from users of goods and services. This is caused when government influences are the weakest and the market has few restrictions on producers to modify their products and enter new market areas. "Bad" inflation is used when the medium of exchange is debased: This is when the government prints more money, and we have more

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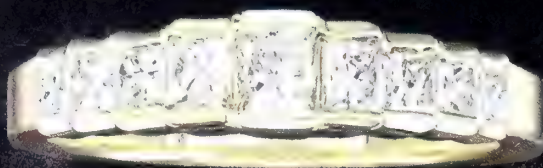
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Readers Report

and more paper chasing after the same amount of goods and services.

Almon H. Clegg, President
CCI
Rockaway, N.J.

WORK BOOTS FIT FINE —FOR NOW

In response to "From wingtips to work boots" (Top of the News, Oct. 19), I know exactly how Amos Crowley feels and what he went through. As a former stockbroker for E. F. Hutton & Co., I am now working on a production line in a manufacturing plant. After looking for positions for over a year, this was the only job I could find. My fellow employees wonder why I am doing this type of work, and I tell them: "It's basic survival." Also, it is simple, honest work. No games. No politics. No egos.

Like Crowley, I have a sense of accomplishment at day's end as I see what I have done. But it's a sad state of affairs when you work for an education—I was an MBA—and then can't use it. I continue to look for another job, but in the interim, I appreciate what I have.

Brian Napoli
Medina, N. Y.

SAVING FOR SCHOOL MUST START EARLY—AND THE FEDS SHOULD HELP

Your article "A lot less moola moola on campus" (Social Issues, Oct. 5) is informative and helpful. There's no question that funding education, both for the provider and the user, is, after retirement and health care, the most significant challenge facing Americans.

At Kenyon College, the Alumni Council has created a Funding Education Committee to look at these issues on a long-range basis, on the theory that there is very little that can be accomplished near term. With our focus on 2010 and beyond, we have calculated that for a child born this year, the cost of a four-year private-college education, e.g., tuition, room, board, books, and fees, beginning in 2010, will be more than \$250,000. For public universities, even the trends noted in your article, the cost may be around \$150,000.

We believe that one means to deal with these mind-boggling costs is for the government to provide incentives to enable parents and grandparents to save for education. One way: a Higher Education Accumulation Program. It would be an education-specific, tax-deferred account, similar to but separate from an IRA, in which parents or grandparents would deposit money every year to be used for postsecondary-school education at a trade school, community college,

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I joined the Peace Corps.

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Readers Report

public university, or private college. We are convinced that absent public-policy changes and adoption of programs such as HEAP, the ability of our children and grandchildren to have access to the best education that America can offer is going to be severely curtailed, if not economically impossible.

Neal M. Mayer
Chairman, Funding Education
Committee
Kenyon College Alumni Council
Washington

TAGGERED NURSING-HOME RATES MEAN FAIR CARE FOR ALL

Referring to "Why cost-shifting at nursing homes hurts everyone" (Economic Trends, Oct. 5), I am confident that most nursing-home operators would be happy to charge private-pay residents and medicaid residents the same rate if (but only if): (1) medicaid rates fully covered the cost of care, and (2) the level of care on which those costs were based was one that you or I would be happy with for our own parents.

Meanwhile, in the interests of providing an adequate level of care for all, those who can afford it are having to pay higher costs for those who cannot afford it. That seems to me to be neither fair nor inappropriate.

Michael J. Schewel
President of the Board
Beth Shalom Home of Central Virginia
Richmond, Va.

JAPAN'S RACEHORSE IMPORTS ARE THE LEAST OF THE WORRIES

Regarding "A padlock on the paddock gate" (Sports Business, Oct. 5), you must be horsing around!

Does it make sense, horse or otherwise, for a serious U.S. business magazine to report in detail how Japan is so unfairly blocking imports of Thoroughbreds? With a trade deficit headed toward \$100 billion this year, certainly U.S. Trade Representative Carla Hills and her stable of experts have something better to do. If the state of the U.S. economy is such that racehorses are where we're betting the future of our national competitiveness, then we could cash in all our chips now—semi-conductor, potato, and horse.

Walter E. Schill III
McKinsey & Co.
Tokyo

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Books

TEMPLES OF CHANCE: HOW AMERICA INC. BOUGHT OUT MURDER INC. TO WIN CONTROL OF THE CASINO BUSINESS

By David Johnston

Doubleday • 312pp • \$22.50

SEVENS FOR BUSINESS, SNAKE EYES FOR THE PUBLIC

As recently as the 1960s, the legalized gambling industry was controlled by the mob. Now, it is controlled by such major corporations as Hilton Hotels, Holiday Inns, and Circus Circus Enterprises. Good news, right?

Not according to *Temples of Chance: How America Inc. Bought Out Murder Inc. to Win Control of the Casino Business*. As David Johnston, an investigative reporter for the *Philadelphia Inquirer*, sees it, the new owners are worse than the old. His arguments are persuasive and disturbing. To be sure, the big gambling companies don't break your legs if you welsh on your debts. But their massive campaign to expand legal gambling could have a much more pernicious impact on America than anything envisioned by the mob.

The mob's legal gambling operations were confined to Las Vegas, and its financing was restricted mostly to cash skimmed from table games. Corporate gambling interests have much greater resources and far broader horizons. The big casino companies have better management, marketing savvy, and access to the capital markets. During the 1980s, gambling companies raised \$5 billion from junk-bond offerings alone. Through partnerships with deficit-plagued state and local governments, which see gambling as a painless tax, they have gotten at least one form of commercial gambling legalized in every state but Utah and Hawaii.

Today, gambling companies are pursuing what Johnston calls a plan "to profit by infecting America with an incurable

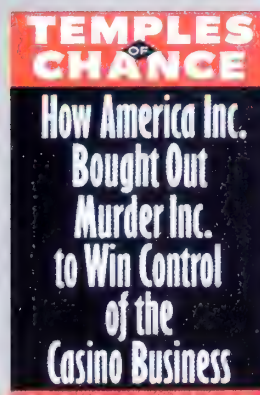
case of gambling fever." They are promoting everything from riverboat casinos to seductive video slot and lottery machines, which they hope to install in taverns across the country. They're close to getting casinos built in major cities such as New Orleans and Chicago. And they've been very successful in sanitizing gambling's seedy, back-room image and making it socially acceptable. By 1995, according to consultant Eugene Martin Christiansen, annual gambling losses by Americans will reach \$40 billion. That translates into immense profits for gambling interests. According to Johnston, Hilton's four Nevada casinos have twice the revenues of the company's 264 franchised hotels combined.

Johnston disagrees with executives who claim gambling is harmless recreation. For many, even most, players, it may be. Still, he argues, it tends "to prey on the foolish, the compulsive, and the weak." In part because gambling is sanctioned, even promoted, by government, millions of people who had never so much as stacked poker chips are being lured into gambling compulsively. And though gambling is one of the fastest-growing industries in the U.S., Johnston questions its economic value. F

THERE'S NEW STRENGTH IN NUMBERS AT THE EQUITABLE.

notes Hugo Schneklath, a Iowa legislator and gambling foe, this way: "Gambling is an awful foundation to build an economic system on. Casinos don't make anything. They just take money from a lot of people and give to a few." Witness Atlantic City's gambling downtown. The mob and the casino companies have one thing in common: a propensity for corrupt state gaming regulators. Much of *Temples of Chance* is devoted to exposing the feckless performance of New Jersey's Casino Control Commission and its Gaming Enforcement Div., a story Johnston covered for nearly four years. Although regulators insist that the Atlantic City casinos are the country's most tightly regulated, Johnston offers evidence to the contrary. When entrepreneur Merv Griffin sought to take over Resorts International Inc. from Donald Trump in 1988, regulators ignored Griffin's association with a stock manipulation scheme. Griffin said he was unawares. Casinos, Johnston

Casino companies,
Johnston says, mean
to give the U.S. 'an
incurable case of
gambling fever'



Trump, then under great financial pressure, to make a mortgage payment on his Trump Castle casino. Trump's father lent him the necessary cash by buying \$3 million worth of chips. The loan violated rules prohibiting anyone without a license from putting money into a casino. Yet regulators, says Johnston, helped Trump get it done and let him avoid any penalties. One Casino Control Commission commissioner who opposed the plan, W. David Waters, called the episode an "outrage."

charges, routinely and knowingly welcome mobsters and drug dealers, who use gambling to launder money, while regulators usually look the other way.

Although regulators are supposed to ensure the "financial stability" of casinos, they regularly make exceptions. They certified the Resorts International deal even though, as one commissioner admitted, "we knew Resorts couldn't make it." Resorts later filed for bankruptcy. Perhaps most egregious, says Johnston, was a ploy in 1990 by Donald

Temples of Chance too often veers off the point, providing, for example, portraits of high rollers. The book would have benefited from less detail on Atlantic City machinations and more on the social impact of universal gambling. Still, the basic theme comes across as loud and clear as the bells signaling a slot-machine jackpot: For everyone but the house, gambling is a bad bet.

BY CHRIS WELLES

Senior Editor Welles prefers watching to playing.

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THE
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THE DEFICIT ISN'T PUBLIC ENEMY NO. 1

BY PAUL CRAIG ROBERTS



America must have tax reform to boost savings and investment. But the last thing it needs is a tax increase to control the red ink

The recent report of the bipartisan Strengthening of America Commission, chaired by Senators Pete V. Domenici (R-N.M.) and Sam Nunn (D-Ga.), concludes that only a big dose of supply-side economics can restore the U.S. savings rate. Issued under the auspices of the Center for Strategic & International Studies, a centrist think tank in Washington, the report calls for abolishing the present tax code and replacing it with a consumption-based income tax, which would exempt from taxes any income that is saved or invested.

This supply-side solution to the tax bias against saving was first proposed in January, 1977, by William E. Simon and David F. Bradford, respectively the Treasury Secretary and Deputy Assistant Secretary for tax policy in the Ford Administration. Then, *Blueprints for Basic Tax Reform* was too radical for policymakers. We can be thankful that it has taken only 15 years for this sensible idea to become part of centrist thinking.

SCANT AWARENESS. The commission's report, however, is not without grave problems. Rather than presenting a straightforward case against the multiple taxation of investment income (for example, the double taxation of dividends), the report backs into tax reform through spurious arguments asserting that rising debt is crowding out investment and causing productivity to decline. It is as if the commission were unaware of the 1991 Commerce Dept. report showing that growth of U.S. manufacturing productivity tripled during the 1980s: When Reagan left office, such growth was on a par with Japan and Europe, and manufacturing's share of GNP had rebounded to the level of output achieved during the 1960s.

Defects in the commission's productivity assumptions are brought home by a newly released study of international productivity for the McKinsey Global Institute. The study by economists Martin N. Baily, Francis M. Bator, and Robert M. Solow—described by *The New York Times* as "all longtime Democrats"—concludes that the U.S. commands a significant productivity lead over Europe and Japan, with Germany and Japan reaching only 80% of U.S. manufacturing productivity and with the U.S. enjoying an even greater lead in service-sector productivity.

In merchandise retailing, for example, we are twice as efficient as Japan, and our telecommunications industry is twice as productive as Germany's. Moreover, the report finds that our relative performance was better during the 1980s than at any other time in the postwar era. Our competitive advantage is at-

tributed to vigorous competition, which forced us to get more from our investments than do our protected and heavily regulated foreign competitors. In short, the "industrial policies" of our rivals have burdened their enterprises with insulated managements and work forces that have the characteristics of unproductive public bureaucracies.

LOSERS LOBBY. From 1985 to 1991—a period when pundits were pulling their hair out because of our alleged lack of competitiveness—the U.S. share of world exports increased from 19% to 27%. During the past five years U.S. merchandise exports have grown 40% faster than Germany's and 75% faster than Japan's. As George Washington University's Henry R. Nau explains, we don't know about this because our successful companies are busy in the world marketplace, while the losing companies are in Washington complaining to Congress, think tanks, the media, and Presidential candidates.

The commission's report also errs in its mechanistic assumption that by solving the savings problem with what amounts to an unlimited individual retirement account, tax rates on consumed income can be as progressive as policymakers wish without doing economic harm—a sop to the continuation of excessive spending. But consumption is an incentive to production. If it is to be ruthlessly taxed, there are no rewards for saving and investing.

The investment rate reflects demographic change, technological change, the aftertax rate of return, the security of property rights, opportunities abroad, and the liabilities associated with hiring people and producing a product of service. If these factors are encouraging, investors will find financing. If they are not, high savings rates will produce what Keynesians call "the paradox of thrift," leading to a downward spiral. The commission does not understand this, and concludes erroneously that reducing the deficit through higher taxes would boost savings and investment.

The red ink of the past decade is the product of unexpected disinflation and federal guaranteed deposits. Whipping inflation and standing behind federal guarantees have done more to help investment than the deficit has done to hurt it. However large the public debt now seems to the hysterical, it is small compared with 1946, when it was 127% of GNP, more than twice today's rate. Whatever one thinks about the debt, its mismanagement by government is good reason not to give the failed institution yet more control, as the commission proposes, over education, health, industry, and investment in the name of strengthening America.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON



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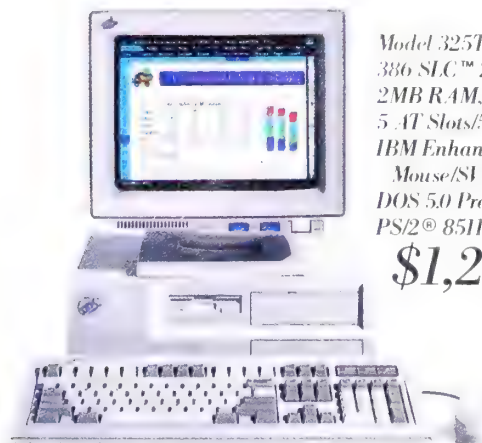
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BY GENE KORETZ

JUST HOW WELCOME IS THE JOB MARKET TO COLLEGE GRADS?

Anyone familiar with the rising gap between the earnings of high school graduates and college grads needs little convincing of the value of a college education. From 1979 to 1990, the earnings premium for full-time workers with college degrees over their high school counterparts widened markedly, from about 36% to 62%.

The most common interpretation of this trend is that demand for college grads rose extremely rapidly during the 1980s, outpacing supply and forcing employers to bid up their wages. But two recent studies by Labor Dept. economists Daniel E. Hecker and Kristina J. Shelley underscore a trend that calls

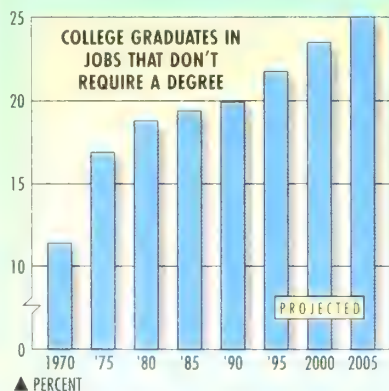
the demand for college-educated workers. Yet Hecker's analysis and other research studies indicate that the percent of "educationally underutilized" college grads continued to rise (chart) and that many recent college graduates are working in noncollege-level jobs that pay less than positions requiring more schooling.

Hecker concludes that while skill levels in the workplace rose during the past decade, the supply of college grads rose even faster. The main reason for the rising wage differential for college graduates, he notes, was not a bidding war for their services but a decline in the real wages of less-educated workers, as structural change eliminated many high-paying industrial jobs. Indeed, Lawrence Mishel of the Economic Policy Institute notes that the real wages of college-educated workers actually rose less than 2% from 1979 to 1989 and have declined since then.

The outlook for the next dozen years seems even more problematic. Although the percent of new jobs requiring a college degree will continue to rise, Labor's Shelley calculates that the supply of new workers with a college degree will also continue to exceed demand. If current job and educational trends continue, she estimates that 30% of college graduates entering the work force from 1990 to 2005 will work in jobs that don't require a college degree—a trend that could boost the percent of "underemployed" college grads to one out of four.

In short, job trends in the past decade suggest that investing in human capital and increasing the supply of college graduates does not automatically translate into rising living standards for those earning college degrees. Corporations and government policy makers will also need to stress the kind of capital investment that creates jobs that can fully utilize the skills of a more highly educated work force.

MORE UNDEREMPLOYMENT FOR COLLEGE GRADS



this conclusion into question: the continuing rise in the percentage of college grads employed in jobs that don't normally require a college degree.

In the 1970s, the reason for that trend was clear. In that decade, the baby boomers poured into the labor force, vastly increasing the supply of college graduates relative to demand and sharply reducing the gap between the earnings of college and high school graduates. At the same time, the percent of college grads employed in occupations not requiring a college degree—retail sales, farm work, clerical, assembly-line jobs, mechanics, and many services—rose from about 11% to 18%.

In the 1980s, however, a dramatic widening of the gap between the earnings of college and high school graduates suggested that technological change in the marketplace had vastly increased

the 1982 recession. "Small-business owners," says *D&B Reports* editor Patricia W. Hamilton, "are about as scared as I've ever seen them, and a lot of them just won't believe any evidence that they should feel otherwise."

...AND CONSUMERS SAY THEY'RE RIGHT TO BE CONCERNED

Small businesspeople aren't the only people in an anxious mood. The Conference Board reports that its consumer-confidence index in October hit its lowest level in eight months. Less than 10% of consumers feel business conditions are good, while 45% say they are bad. Some 43% of respondents to its monthly survey say they put off a major purchase in the past six months because of economic uncertainties. And nearly 25% report that someone in their household was unemployed during the past year, with the average unemployment spell lasting for about six months.

SUDDENLY, SOME PENSION FUNDS APPEAR A MITE SHORT

It wasn't too long ago that the nation's private pension system was the picture of financial health. Although some troubled companies had sizable unfunded pension liabilities, the huge stock market runup in the 1980s left most defined benefit plans with money to spare. Indeed, according to Buck Consultants Inc., in 1987 the pension fund assets of major corporations equaled 170% of their accumulated pension obligations, and 93% of such plans were fully funded.

Now, however, the recessionary climate of recent years is beginning to take a toll on the system. Although most companies' pension plans continue to be well-funded, Buck estimates that last year the ratio of assets to liabilities in pension plans of major corporations dropped to 129%, and the percent of fully funded plans declined to 79%.

Why the decrease in the percent of companies that are adequately covering their pension obligations? The biggest reason, says a Buck spokesman, is the decline in market interest rates, which has sharply raised the present discounted value of future pension obligations. In other words, corporations with pension plans, like other debtors, are finding that they can no longer count on inflation to lessen the burden of meeting their future liabilities.

FOR SMALL-BUSINESS OWNERS, THE WORRY WON'T GO AWAY...

With large corporations continuing to pare their work forces, hopes for a pickup in employment clearly rest with small businesses, which accounted for roughly half the new jobs created in recent decades. But such prospects look increasingly slim if the latest annual survey of small business owners by *D&B Reports*, a magazine published by Dun & Bradstreet Corp., is any indication. The survey reveals that small-business executives are more downbeat about the economy than anytime since

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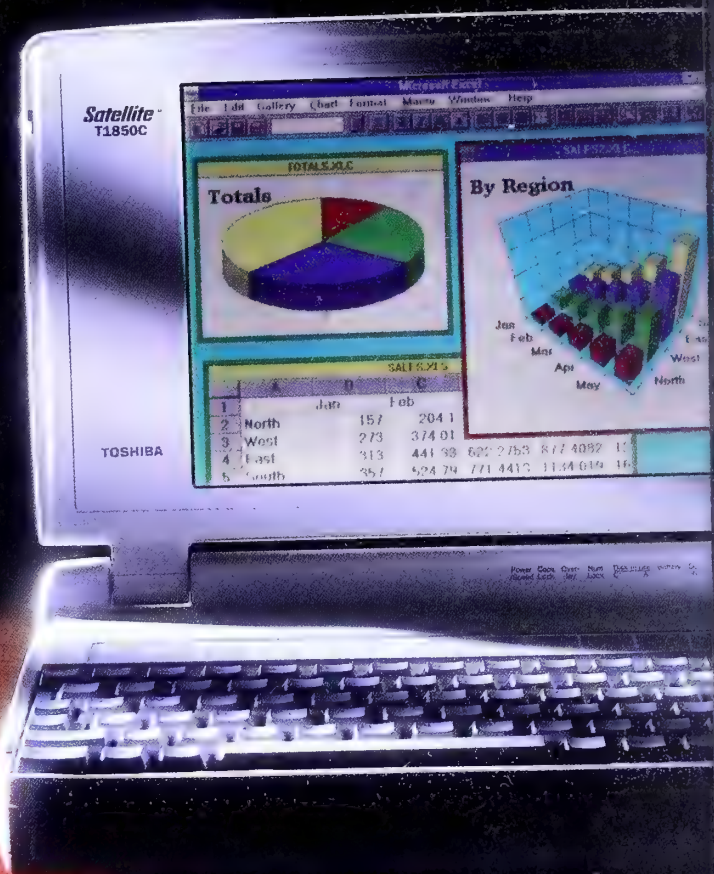
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Of course, like other notebooks in our Satellite series, the T1850C comes with a rapid fire 25MHz 386SX microprocessor, 4MB of RAM that can be expanded to 12MB and your choice of an 80MB or 120MB hard drive.

But for a true picture of just how great the color on the T1850C is, we invite you to place it side by side with other color notebooks. A demonstration that should convince you not only are ordinary monochromes on the way out, but a number of ordinary color notebooks as well.

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Computer manufacturers were thinking about you when they developed the first notebook PC. "About 70% of our sales are to people who are buying them as their sole PC," says Mike Wagner, director of marketing for Beaver Computer Corporation, a San Jose, CA-based manufacturer of notebook PCs. "That's especially true for small businessmen. They tend to be a lot more mobile than corporate executives."

The best notebook computers, either IBM- or Apple-compatible, offer just about all the computing power of equivalent desktop PCs. A variety of manufacturers sell both 386- and even 486-based notebooks. And there are plenty of notebooks with enough random access memory and hard disk capacity to run all of the more popular applications, including such memory and disk space gluttons as Windows 3.1 and new Windows-based applications.

All of that comes in packages that typically weigh just over six pounds—some so-called "sub-notebooks" weigh in under four pounds—and will slip easily into an attaché case without evicting all those other necessities of business travel.

BCC for example, sells a 386-based notebook with an

Laptop or Desktop—Where Do You Work



Some so-called "sub-notebooks" weigh in under four pounds—and will slip easily into an attaché case without evicting all those other necessities of business travel.

85 megabyte hard disk, four megabytes of RAM, expandable to eight megabytes, and a built-in fax/data modem. Including pre-loaded MS-DOS 5.0, Windows 3.0 and communications software, the model SL007 has a suggested list price of \$5,995.

Among some of the other more respected IBM-compatible notebook makers with similar models are Compaq, Toshiba, Zenith, and NEC. Apple continues to hold a monopoly on Macintosh-compatible notebooks.

There's more to computing than raw byte crunching, though, and most notebooks fall short of desktops in at least three areas—keyboard, price, and display.

Price is the most immediate hurdle. Portability still comes at a price premium that can range anywhere from \$500 or \$600 to well over \$1,000 compared to an equivalent desktop model.

Even the best notebooks have keyboards smaller than the full-sized versions supplied with desktop models. That is a tradeoff for compactness.

Displays on notebooks, typically back-lit LCD

screens, have improved remarkably over the past few years. But they are still smaller than the displays available for desktop PC, and they often lack the speed and clarity of the best desktop monitors.

A few notebook makers, Compaq and Toshiba among them, have engineered one logical solution for notebook users who want a desktop machine as well: docking units that contain expansion slots, a CRT display and a full-size keyboard. The notebook PC slips into the docking unit to become a full-featured desktop PC.

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Recent price reductions have made high-quality laser printers available to a much wider audience.

One recent example of laptops designed to be used as both portable and desktop machines comes from Toshiba. The new Toshiba Satellite series laptops come with ports to connect a VGA monitor and either a 17-key-pad or 101-key enhanced keyboard in addition to ports for parallel and serial devices, a PS/2 mouse, and expansion slots for a modem and additional memory.

The new line also illustrates the continuing decline in laptop pricing. The T1800—with a 20MHz 386SX CPU, a 60 MB hard drive, 2MB RAM and both DOS 5.0 and Windows 3.1 preloaded has a suggested retail price of \$1,799. An enhanced version, the T1850, with an 80MB hard drive and 4MB RAM, lists for \$2,199. And a color LCD display version, the T1850C, lists for \$3,299.

The more sophisticated notebooks, those based on 386 and 486 processors, with large hard drives and built-in modems, often have shocking news for first-time users on the road: limited battery life that can cut their usage down to two to three hours between charges.

One solution is to keep an extra battery in the briefcase, but there's good news for anyone who will buy later this year, and even better news for those who will enter the market next year: a new generation of notebooks based on new architecture and processors much more adept at conserving power.

First up are both 386SL and 486SL chips from Intel and other chip makers. The chips were designed specifi-

cally for notebooks and draw less power than standard 386 and 486 chips.

But even more important is the new 3.3 volt architecture that will begin appearing in notebook PCs next year.

"You're looking at a 60% reduction in battery use," says Intel Senior Vice President David House. "That's going to give you a two-and-a-half times increase in battery life."

House says that a carefully configured 386SL notebook with 3.3 volt architecture should operate between seven and eight hours between charges—more than enough time to finish a report while flying from New York to Los Angeles.

Knowing what to buy is only half the battle. Figuring out where to buy—and how to keep it running—is the other.

At least a few brands that began as no-name mail-order lines have matured into mainstream sources of even the latest technology. Dell, Gateway 2000, and Northgate, to name a few, have all grown into respected direct mail PC vendors, often with extensive service and support included in the purchase price.

For those who want to see, touch and poke before buying, the choice is essentially between warehouse style retailers that sell boxes and more specialized dealers that provide more hand-holding, training, and education. All of that typically comes at the cost of a higher sticker price on the computer. Still, someone who isn't quite sure what to buy—including the right combination of hardware and software to best do the

job—will probably appreciate the higher-priced expertise of a full-service computer retailer.

The oft-repeated caveat of personal computer experts remain: "when, not if" your computer goes clink in the night. Service and support remain hit and miss propositions, depend-

ing on your needs and the vendor, but there are ways to ease the pain of an 11th hour breakdown.

NEC Technologies, for example, recently announced a limited one-year free on-site service warranty for its PowerMate, Image, and C series desktop PCs purchased after June 1, 1992. Other vendors, such as IBM's PS/1 division and BCC, depend on overnight replacement via Federal Express or some other overnight carrier.

Many computer specialty stores, independent service companies, and larger chains offer service programs that take over where manufacturer warranties end. And if the

**Knowing what to buy is
only half the battle. Figuring out
where to buy—and how to keep it
running—is the other.**

problem at hand hasn't drained the life out of your computer, you can always ask for advice at the electronic computer forums sponsored on CompuServe and other major computer on-line electronic bulletin boards.

POWER PRINTERS FOR POWER OF THE PRESS

Most small businesses have two—not always mutual—goals in mind when they convert documents into hard copy: Get it out fast and make it look good. In many ways, that mirrors the capabilities of computer printers.

Price reductions over the past few years have made high-quality laser printers available to a much wider audience. According to Datapro, the market research firm owned by McGraw-Hill Inc., laser printer sales grew from 5% of the PC printer market in 1986 to 27% by 1989, and are increasingly displacing other printer technologies, such as dot matrix and ink jet.

"Non-impact sales are increasing at a very rapid pace," agrees Dennis Flannigan, president of Okidata, a Mount Laurel, NJ-based printer manufacturer. Flannigan notes that several printer manufacturers have stopped making

dot matrix models and he suggests that impact printers will maintain a small segment of the market in coming years.

Virtually the only customers for dot matrix, he and other printer experts say, are people who need to print multiple sheet forms, where impact printing is a necessity. But the combination of letter-quality printing at a relatively low cost has brought laser—and its technological cousin, LED—printing into the mainstream.

LED printers use a light emitting diode in place of a laser to transfer characters and other images onto plain paper. In addition to Okidata, NEC, Toshiba, and Panasonic all use LED technology in some models.

At the low end, laser and LED printers sell for just under \$600 to perhaps \$650. That compares to anywhere from \$250 to \$350 for a basic 24-pin dot matrix capable of near letter-quality printing.

There is still a middle ground, both technologically and financially, held by ink jet and bubblejet printers. Both approaches offer near-laser-quality printing at price points \$200 or more below the price of low-end laser and LED printers.

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Smith Corona, for example, recently announced its first ink jet printer, the Coronajet 200j, rated at 300 DPI print quality. The 200j, according to a Smith Corona spokesman, is expected to sell for approximately \$350 at retail. In addition, Hewlett-Packard, Canon, and Epson market ink jet or bubble jet printers, with HP the clear leader in terms of sales, according to Datapro.

Even more than price, print quality has become the weapon of choice as manufacturers battle for market share. And the good news is that personal computer printers are getting much better—to the point where some are beginning to approach the quality of professional typesetting.

"We're offering plain paper typesetting," asserts Larry Lukis, chief technical officer for LaserMaster, an Eden Prairie, MN-based manufacturer of laser printers and printer upgrade products. "Our target customer is a serious desktop publishing user, someone that typically would take a project to a service bureau and have it typeset."

At least for now, there is a substantial price premium for that performance. The company's first Unity series laser printer is priced at \$6,995. For that, users get print resolution rated at 1,000 DPI, more than three times the resolution of a typical laser printer.

"It really comes down to which applications are there where 1,000 DPI is good enough," says Lukis. "You don't need magazine-quality typesetting for some documents, especially when you can trade it off against faster turnaround time."

He cites in particular projects involving sales and training brochures, manuals, and flyers. "There have been dozens of books published from plain paper masters."

High-quality printers, though, are typically slower than dot matrix models. And too often they require memory upgrades and other enhancements to keep up with the constant innovations in desktop publishing and other sophisticated print-based applications. Even there, laser and LED printers are limited by the central processing unit built into the printer.

One emerging answer to that dilemma is "host-based" printing, where the PC's central processing unit controls the printer as well. The printer becomes the equivalent of a dumb terminal.

Anyone who upgrades to a 486-based PC hooked up to a host-based printer will gain faster printing because a 486 processor is faster than the 68000 processors nor-

mally found in laser and LRED printers. And as users upgrade to future generations of PCs their printer performance will improve commensurably.

Font upgrades are also easier, and less expensive, with host-based printers. And the printers themselves are less expensive because they don't need separate processing power and memory.

"We'd like to print a page as fast as you can print a screen," says Okidata's Flannigan. "That's where we're headed." Okidata expects to begin selling its first host-based printers towards the end of 1993.

GETTING PERSONAL, IN DUPLICATE

The fervent dreams of electronics manufacturers aside, the world has not yet placed a personal copier in every home and on every desk.

"It's been a nice steady business for the last few years," says Paul Allan, head of Sharp Electronics' Personal Home Office Electronics division. In other

words, small businessmen, people who work at home and other potential customers view a personal copier as a nice convenience, but not yet a necessity. But that may soon change.

Price reductions, equipment downsizing and feature enhancements have all helped make personal copiers that much more attractive. And any busi-

nessman that has walked past a line of employees waiting to use the single, heavy-duty office copier knows the value of technological decentralization.

Personal copiers have their limitations—they don't as a rule collate large documents, they're slower than large office models and they don't reproduce four-color originals.

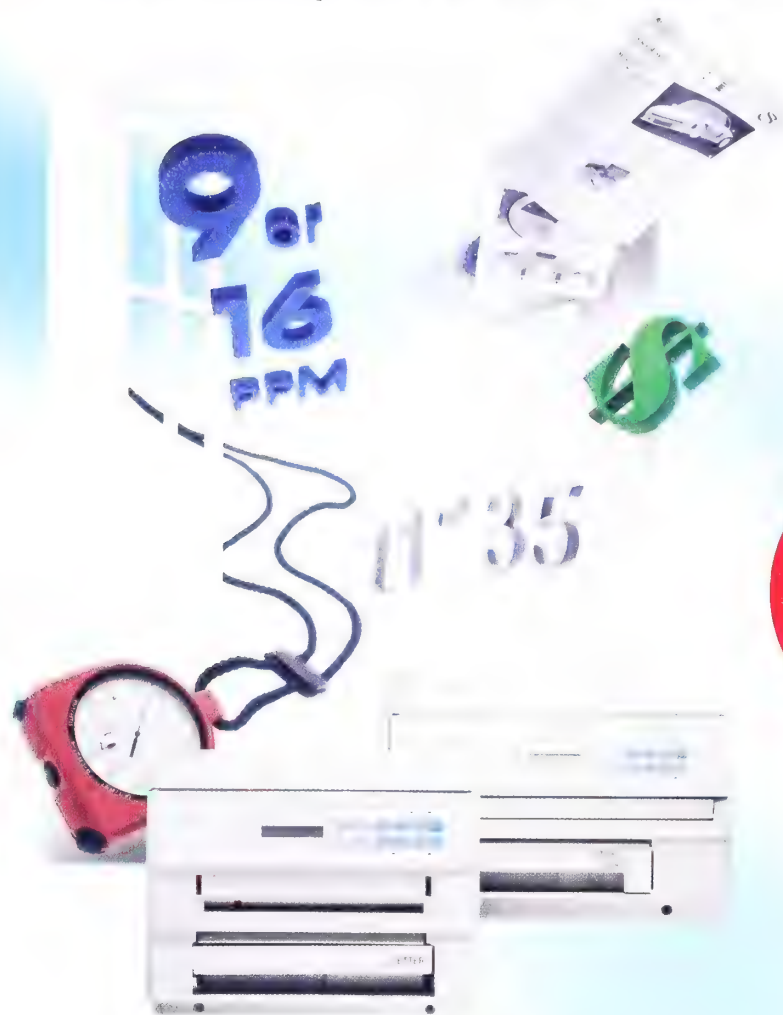
But at a starting price of about \$500, personal copiers will produce clear monochrome copies, usually one sheet at a time. For a few hundred dollars more, they'll enlarge and reduce images, make multiple copies and perhaps incorporate an automatic paper feeder.

Among the major personal copier manufacturers are Canon—with more than half the market—Sharp, Mita, Sanyo and Xerox. All use replaceable toner cartridges—the technological development that almost singlehandedly created the personal copier. Canon and Mita go one step further by including the toner, development unit, and drum in a single cartridge.

The more compact models are small enough to travel without too much strain. Canon's best selling PC-1, for

**And the good news is that personal
computer printers are getting much
better—to the point where some are
beginning to approach the quality of
professional typesetting.**

Four reasons to buy a TI microLaser™ printer.



**PS35
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priced
lower!**

Now there's a way for you to put the power of Microsoft® Windows™ on paper — microLaser from Texas Instruments.

Designed to be Windows-compatible, there's a microLaser just right for your needs, whether you need a personal or shared printer. Here's why:

1. Compatibility With HP LaserJet® emulation and Adobe® PostScript® software, microLaser easily supports your demanding applications. And with our Microsoft Windows driver, set it and forget it with all Windows applications.

Not only does PostScript give you scalable outline fonts and graphics, it also means that your microLaser works in computing

environments like Windows, DOS®, Apple® Macintosh®, OS/2® and UNIX®.

2. Performance When it comes to printing high-quality documents fast, microLaser really makes you look good. At either nine or 16 pages-per-minute, microLaser printers speed you through documents in a hurry. Plus PostScript means what you see on your screen is what you get on paper. You can even turbocharge your microLaser with a RISC processor for blazing fast graphics.

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Take our personal microLaser Plus for



example. With its high duty cycle of 10,000 pages-per-month* and a standard one-year limited warranty**, you can rely on your microLaser to work the first time, every time, for years.

4. Value Starting as low as \$999†, there's a microLaser designed to fit any budget. From the single user all the way up to a network. Consider this, too: microLaser's average cost per page is only 1.9 cents‡, while some laser printers average around 3.3 cents. The microLaser not only makes sense, it saves you money, too.

For details on the right microLaser for you and the name of the nearest dealer, call

1-800-527-3500.

The microLaser PS17 has earned the 1990 PC World Best Buy award; microLaser PS35 has earned the 1990 InfoWorld Excellent Value award and 4½ mice from MacUser, October 1990.

**TEXAS
INSTRUMENTS**

Features	microLaser Plus Basic	microLaser Plus PS17/PS35	microLaser Turbo	microLaser XL Turbo
PPM	9 ppm	9 ppm	9 ppm	16 ppm
Emulation	HP LaserJet II	HPLJII/PostScript	HPLJII/PostScript II	HPLJII/PostScript II
Processor	68000	68000	RISC/8220	RISC/8220
Fonts	14 HP Fonts	17 or 35 Scalable	35 Scalable	35 Scalable
List Price	\$999	\$1,399/\$1,499	\$1,749	\$3,649

*Based on estimated typical usage. **For more information on service upgrade options, call 1-800-847-5757 in the U.S. and 1-800-268-6314 in Canada. †Suggested retail price — dealer prices may vary. ‡Based on suggested retail price of consumables and approximate page coverage rating for each consumable at 4% black (toner, developer and OPC). microLaser is a trademark of Texas Instruments Incorporated. Microsoft and DOS are registered trademarks, and Windows is a trademark of Microsoft Corporation. Adobe, PostScript and the PostScript logo are registered trademarks of Adobe Systems Incorporated which may be registered in certain jurisdictions. LaserJet is a registered trademark of Hewlett-Packard, Inc. Apple and Macintosh are registered trademarks of Apple Computer, Inc. OS/2 is a registered trademark of International Business Machines Corporation. UNIX is a registered trademark of AT&T. ©1992 TI 76543

example, weighs 29 pounds and takes up about as much room as a large attaché case. The PC-1 typically sells for between \$400 and \$500 with a toner cartridge. It has a single sheet feeder and is limited to letter size documents.

Step-up models from Canon and other manufacturers add legal size copying, enlarging and reducing, and multiple sheet feeders—and, in some cases, a stationary platen, which is no small consideration in tight quarters. Those features will add anywhere from \$200 to \$300 to the price.

Just as prices have come down, the number of stores that carry copiers have risen. Because personal copiers rely on replaceable cartridges and few moving parts, they are designed to be relatively service-free. And that has opened the market to discount outlets with a cash-and-carry mentality—and pricing to match.

Service and support in most cases is a black and white issue: Take it or ship it to the manufacturer's service center. On-site service for personal copiers is almost a contradiction in terms. For the most part these are, after all, highly portable machines.

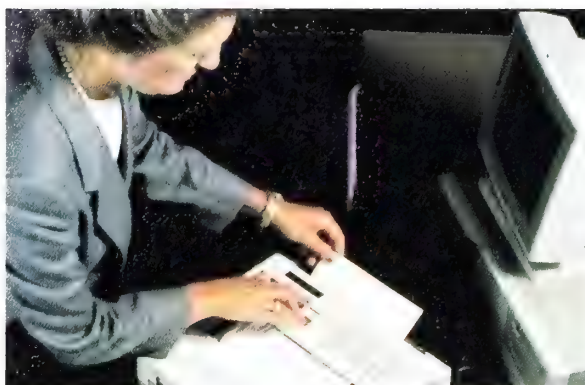
WHEN OVERNIGHT WON'T DO, GET THE FAX

At a time when even the local lunch counter accepts orders by fax, it's hard to imagine any business getting by without a fax machine sitting someplace in the office. Faxing has become an essential business tool, but knowing what to buy can seem as confusing as sorting out screwdrivers in a hardware store.

There are, after all, a dizzying array of standalone fax machines. And there are fax boards that slip into personal computers. All of those options have their own advantages and drawbacks.

At the low end, \$400 more or less will buy a basic thermal fax machine with few frills. It will send and receive faxes, it might store commonly used phone numbers and it will also function as an ordinary telephone.

But thermal faxes fade with time. They curl and are



It's hard to imagine any business getting by without a fax machine today.

often hard to read. And unless it includes an automatic paper cutter, it can turn a lengthy message into an unwieldy paper snake.

Those drawbacks have fueled the market for plain paper fax machines, which continue to decline in price. Plain paper fax machines that use ink jet printing mechanisms have begun selling for less than \$1,500—still relatively expensive,

but less than half the price of just a few years ago. By 1995, BIS Strategic Services, the Boston-based market researcher, claims plain paper fax sales should equal that of thermal machines, as prices dip below \$1,000.

"Would you pay 50% more (for plain paper)? Maybe. Now you're being asked to pay 300% more," notes Paul Allan, general manager of Sharp Electronics' Personal Home Office Electronics division. Sharp remains the leading supplier of fax machines in the United States.

Anyone with a personal computer and a printer, though, already has the makings of a plain paper fax machine, and for a relatively modest cost.

An increasing number of suppliers have fax boards and accompanying software that allow users to send and receive faxes from their PCs. The boards, with a phone jack, slip into an expansion slot and typically are compatible with any Group II or III fax machine.

Fax boards offer several advantages. A document created on the PC can be faxed without creating a hard copy. Also, incoming faxes can be revised and incorporated in other documents without scanning or any other steps. And fax boards generally offer as good, if not better, quality than the average fax machine.

In addition to fax boards, many manufacturers—among them The Compete PC, based in San Jose, CA and U.S. Robotics, based in Chicago—market combination fax modems that send and receive both computer data and fax transmissions. ■

**An increasing number of
suppliers have fax boards and
accompanying software that allow
users to send and receive faxes
from their PCs.**

This text was written by Martin Levine, who specializes in consumer electronics and home entertainment.

THE FOURTH QUARTER LOOKS GLOOMY DESPITE THOSE GDP NUMBERS

The question is inescapable: Did the Bush Administration cook the numbers for gross domestic product? The answer: highly unlikely. Still, you wonder. The Commerce Dept. reported on Oct. 27 that real GDP grew at an annual rate of 2.7% in the third quarter—nearly twice the pace widely expected by most analysts. Market forecasters rarely miss GDP by that much.

Talk of number chicanery in order to help Bush's reelection bid swirled through the financial markets immediately following the report. The quarterly GDP numbers on the trade deficit and on business investment in new equipment seemed at odds with the monthly data on foreign trade and shipments of capital goods, respectively. Also, defense spending, which had declined for

five consecutive quarters, suddenly popped up last quarter. What gives?

Probably nothing. When Commerce reports its first estimate of GDP, it does so without an entire quarter's worth of monthly data. In many cases, it has to make some sophisticated guesses. But ultimately, the monthly source data and the GDP data have to match. So the test of any tomfoolery will lie in future revisions. If the soufflé falls unusually flat after the first revision in late November, then you can blame the cook.

LAST QUARTER'S GAINS LOOK SHAKY

There are two things that the White House can legitimately claim: GDP has now made a full recovery following its recession losses, and the inflation outlook

the best in decades. Real GDP regained its prerecession peak last quarter. But compared with past rebounds, that's a small feat. If the recovery had proceeded at the average pace of the last four recoveries—excluding the short-lived 1980 upturn—real GDP would be 4.9% higher than it is now (chart). Typically, the economy regains its prerecession level in three quarters. This time, it took twice as long.

That explains the great outlook for inflation. An economy can generate price pressures only if demand outstrips production capabilities. With growth so far below where it should be, the economy has so many underutilized resources that inflation is likely to keep falling through 1993, even if growth picks up.

The more immediate focus of the GDP report, though, is

what the numbers say about the fourth quarter. The news is not good. In addition to the strange jump in defense outlays, a big gain in consumer spending and an acceleration in the growth of business inventories were sizable contributors to third-quarter growth. But none of those advances will be repeated this quarter.

Defense spending rose at an annual rate of 6.9% last quarter. There are two possible explanations. Military outlays during the cleanups after Hurricanes Andrew and Iniki may have boosted the numbers. Or, some defense spending may have been brought into the third quarter from future quarters. In either case, military outlays will probably fall back in the fourth quarter.

HOUSING WILL NOT GIVE MUCH MORE HELP

Consumer spending is also on shaky ground. Real consumer outlays rose at an annual rate of 3.4% last quarter, but the monthly data show that all of the gain occurred in July, while spending in both August and September was essentially flat.

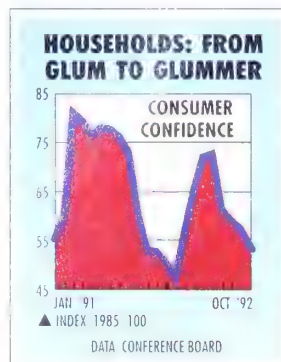
A peppier pace of spending on durable goods and services led the quarterly advance. However, service outlays rose far above their recent trend, suggesting that service spending will slow down this quarter.

Sales of home furnishings and appliances accounted for nearly all of the quarter's gain in durable-goods spending by consumers. That was driven by the jump in home sales early in the quarter as mortgage rates fell.

However, housing will not provide that kind of support in the current quarter. Through October, mortgage rates are up, and mortgage applications are down. Sales of existing homes fell 0.9% in September to an annual rate of 3.28 million—the slowest pace since January.

The overriding reason why consumers cannot keep up their third-quarter pace of spending is that they don't have either the will or the wallet. Households began the fourth quarter in an unusually downbeat mood. The Conference Board's index of consumer confidence dropped for the fourth consecutive month (chart). The index now stands at its gloomiest reading since February, when it had fallen to a 17-year low.

Jobs, or the lack of them, continue to top household worry lists. More than 35% of the nation's consumers say that their families are being adversely affected by the



Business Outlook

weak economy, reports the Conference Board. Nearly 25% say that someone in their household has been unemployed during the past year. And of those who found another job, well over 50% say they now earn less than they did in their previous position.

As testimony to that, one of the most telling numbers in the third-quarter GDP report was the one for consumers' real aftertax income. It posted no growth. That means households had to dig deeply into their savings in order to finance their purchases. Savings as a percentage of aftertax income dropped to 4.5% from 5.3% in the second quarter. Low savings, weak income growth, and heavy debts will surely restrain fourth-quarter spending.

A faster pace of inventory-building, from \$7.8 billion to \$14.7 billion, also added to third-quarter growth in real GDP, but again, inventories may be a drag this quarter. True, a big gain in farm inventories accounted for some of that acceleration, but it was the largest increase in more than three years—a good reason to expect a dropoff in the fourth quarter.

In addition, stock levels in manufacturing swung from a \$6.5 billion liquidation in the second quarter to a \$4.3 billion accumulation in the third. Since factories were cutting production in both August and September, the inventory rise appears to be unintended. That means weakness in the factory sector will probably continue in the fourth quarter, as companies wrestle their stockpiles into better shape relative to demand.

And demand remains tepid. Manufacturers' new orders for durable goods slipped by 0.4% in September—the third decline in a row. For the quarter, orders dropped sharply, and shipments slowed (chart).

Also in September, the backlog of unfilled orders

dropped for the 13th consecutive month. That means production already in the pipeline continues to dwindle. A shrinking backlog, combined with weak new orders and heavy inventories is a deadly mix for future gains in factory output and employment.

THE HEAVY PRICE OF CORPORATE PROFITS

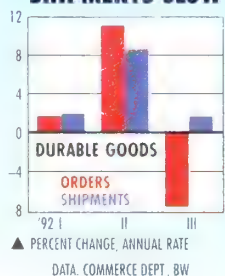
The GDP report told a much brighter tale about inflation. The so-called fixed-weight price index for GDP—the broadest gauge of inflation—rose at an annual rate of only 2% in the third quarter. Hurricane distortions made the number look about one-half percentage point lower than it would have otherwise, but still, the annual inflation rate by this measure is running well below 3%.

One reason that inflation will stay down is the sharply slower pace of labor costs. The Labor Dept.'s index of employment costs—including both wages and benefits—continued that trend in the third quarter. In fact, wages posted the smallest quarterly advance in the 10-year history of the index.

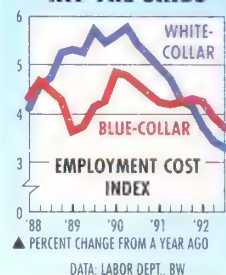
During the past year, employment costs are up only 3.3%. That's the slowest annual pace in more than five years. Businesses have made especially steep cuts in the labor costs of their white-collar work forces (chart). Add in recent productivity gains, and unit labor costs are rising even slower than prices. That has helped to widen profit margins, even in a weak economy.

But households have paid the price for better corporate profits. Cost-cutting has become a euphemism for job elimination. That's the main reason why this recovery has been the weakest in the postwar era. And no matter how you cook the data, the economy will not be truly healthy until job prospects begin to brighten.

ORDERS DROP, AND SHIPMENTS SLOW



WHERE LABOR COSTS HIT THE SKIDS



THE WEEK AHEAD

PURCHASING MANAGERS' INDEX

Monday, Nov. 2, 10 a.m.

The National Association of Purchasing Management's index for October is expected to inch up to 50%, from 49% in September, say economists surveyed by McGraw-Hill Inc.'s MMS International.

CONSTRUCTION SPENDING

Monday, Nov. 2, 10 a.m.

Construction spending for September is likely to post a 0.5% gain, says the MMS survey. It had fallen 0.8% in August.

LEADING INDICATORS

Tuesday, Nov. 3, 8:30 a.m.

The index of leading indicators for September is expected to be unchanged, ac-

cording to the economists. It had declined 0.2% in August.

PRODUCTIVITY

Tuesday, Nov. 3, 10 a.m.

Output per hour in the nonfarm economy probably posted a third-quarter gain of about 1%, at an annual rate. If so, unit labor costs will rise 2%, assuming a 3% pace of wages and benefits.

FACTORY INVENTORIES

Wednesday, Nov. 4, 10 a.m.

Factory inventories are likely to have risen by 0.2% in September, following a 0.5% jump in August. Stock levels had backed up excessively, but production cuts helped to rein in the September increase. New orders remain tepid.

EMPLOYMENT

Friday, Nov. 6, 8:30 a.m.

Nonfarm payrolls for October are expected to rise by 20,000 workers, says the MMS survey, after dropping by 57,000 in September. The economists project an uptick in the unemployment rate to 7.6% from 7.5%. If the forecast is on target, the economy will have little momentum heading into the fourth quarter and the Fed may cut interest rates.

INSTALLMENT CREDIT

Friday, Nov. 6

Consumer installment debt is projected to have dropped by about \$1 billion in September, as consumers remain aver-

GET OFF THE BEATEN PATH WITHOUT LEAVING TOWN. If you love driving, you're always looking for a better way to get from here to there. That's the philosophy behind the 1993 Mazda 626 ES. Because in a class of cars that strives to be average, this car has unique virtues and a character all its own. 🌳 Its elegant exterior echoes the curves of a coastal highway, while the interior cradles you in comfort and security. A 24-valve, aluminum alloy V6 is one of the smoothest, quietest piston engines in the world. And an agile suspension gives you the advantage in tight traffic. Harmony of style and performance set this new 626 apart. Qualities that are at the heart of every Mazda. 🌳 So take to the road in the all-new Mazda 626 ES. And discover how it feels to go your own way every time you turn the key.

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NOVEMBER 9, 1992

A CLINTON CAKEWALK?

HIS LEAD SHRINKS—BUT THE ELECTORAL EDGE HOLDS



For a brief, electric moment, it appeared as if the unpredictable 1992 Presidential campaign was heading for a bizarre denouement. Wild-card independent Ross Perot, on the strength of a solid debate performance and a saturation ad campaign funded by tens of millions of his own dollars, was surging. The cocky grin faded from the face of front-runner Bill Clinton as his negative ratings zoomed amid a barrage of Republican character assaults. And an energized George Bush, whose campaign had seemed to be crawling toward disaster, suddenly saw a glimmer of hope. He told large, enthusiastic crowds that "something is happening out there."

True enough. But the something turned out to be less a Bush miracle than the latest strange twist from the Perot camp. The Dallas independent once again shook up the campaign by issuing unsubstantiated charges of GOP dirty tricks, such as wiretapping his phone and, of all things, disrupting his daughter's August wedding. The outlook in the final runup to election day: The latest controversy has blunted Perot's rise while taking attention away from Bush's newfound ability to articulate a message and effectively blast Clinton. The Democrat, meanwhile, held the rhetorical high ground and clung to a narrowing—but still impressive—lead in the polls in the single-digit range.

IMPROBABILITIES. With the dust from the "dirty tricks" blowup settling, it appears that for all of Perot's TV time and his ability to tap voter anger, the tight-wound billionaire is unlikely to win a single state. Even if Bush continues to chip away at Clinton's popular-vote lead, he faces a daunting challenge in the Electoral College. A state-by-state analysis (map) shows Clinton ahead in more than enough states to capture the 270 electoral votes needed for victory. Even weary GOP strategists concede that the scenarios for a Bush victory that they have concocted are highly improbable.

To triumph, the President must not only win every state in which he now leads or trails narrowly, he also must steal away states such as New Jersey, Michigan, and Ohio, where Clinton still holds sizable leads. And even if Bush achieves that goal, he would still lose unless he also took states won in 1992 by Michael S. Dukakis. Among them: Wisconsin, Iowa, and Hawaii.

Here's why this year's electoral map has Bush stumped. Four years ago, he thrashed Dukakis in 9 of the 10 biggest states, losing only in New York. But this year, the Republican has virtually no chance in four megastates with 132 electoral votes: California, New York, Penn-

ylvania, and Illinois. By all rights, Texas and Florida should be solid for Bush. But state polls show that even in those unbelted bastions, he is struggling.

Clinton has virtually locked up New England, the Middle Atlantic region, and the Pacific Coast. More significantly, he's whipping Bush in the industrial heartland. Clinton may even pick off a few states in the GOP strongholds of the South and the Rocky Mountain West. The most likely: Tennessee, Louisiana, Colorado, and Montana.

To find Bush country, you just about need a microscope. The President is firmly ahead only in Utah, South Carolina, and Nebraska. He has been forced to spend precious time and money defending his Southern base. And although Bush is gaining momentum in the South, political analysts doubt the surge in Dixie will be enough. "It's very hard to envision a scenario where you move Bush ahead of Clinton," says pollster Edward Renwick of Loyola University in New Orleans. Adds Southern Methodist University political scientist Dennis Simon: "Unless there's a dramatic error by Clinton, he's got the election."

Gloomily surveying the map, a senior Bush-Quayle official agrees that only another late surprise can save the President: "Our only chance is if this race becomes even more volatile in the closing days." While voters clearly want a

change, polls show they are still not convinced that the Arkansas governor is suited for the Oval Office. Bushies are hoping their attacks on Clinton's truthfulness have softened up the Democrat for a final, fatal plunge. "All we can

It's very hard to envision a scenario where you move Bush ahead of Clinton

hope is that unhappy as they may be with George Bush, they simply will not be comfortable enough to vote for Clinton," says GOP pollster David Hill. "It's not a heck of a lot to bet the ranch on, but it's all we have."

LINGERING DOUBTS. For a while, Perot's surge in the polls heightened Bush, because the Texan was siphoning independents and Reagan Democrats away from Clinton. But Perot's outlandish allegations may have derailed the GOP's comeback strategy. Much to the chagrin of White House operatives, the new Perotnoia has distracted the President from pursuing his final-days game plan: relentlessly reinforce lingering doubts about Clinton. "Perot has been drowning out our message at a time when we should be bashing Clinton over raising taxes," says a senior Bush adviser. "If this goes on, we've lost the election."

To make matters worse, there are in-

dications that despite the implausibility of Perot's charges, many voters are prepared to give the Texan the benefit of the doubt. Perot's credibility was helped by the almost equally outlandish, but confirmed, reports that Administration officials had rifled Clinton's mother's passport files in search of campaign ammunition. Although media reports were deeply skeptical of Perot's allegations, internal Bush campaign polls found that more voters believed Perot's charges than Bush's denials. "When you get out where people drive around in pickup trucks, people really believe this stuff," one GOP strategist observed.

While Perot's latest outburst may have firmed support among his backers, it also may have blunted the chance for further gains. Republican consultant Jay Severin III says the charges make Perot look "shady and a little goofy." That will likely hurt Perot with upscale voters who so far have responded to his tough economic message. "He's peaked," says Democratic consultant Dane Strother. "It's the best thing that could possibly happen to Clinton."

Meanwhile, Clinton is sticking by a cautious strategy in the closing days of the race. He's staying with his message of change, appealing to centrist voters, and sitting on his lead. With so little time left, Clinton aides are prepared to accept slow erosion of his lead rather



Top of the News

than make any bold moves that could turn out to be costly mistakes. "Presidential elections are always close, and this one will be no exception," says top Clinton strategist Paul E. Begala.

All of this has reduced the Bushies to wishful thinking. "A surefire Clinton victory has been thrown out the window," insists Bush campaign manager Frederic V. Malek. "We have an anything-can-

happen election." But while the outlook in some states may yet shift, "the bottom line is unlikely to change," Democratic pollster Diane T. Feldman says. "Clinton is the clear favorite."

Whatever the outcome, both parties have learned painful lessons. The Clintonites rediscovered the danger of being anointed as the front-runner. In a year when voters want to throw the bums

out, they are likely to mistake favorite for incumbents. And the GOP learned not to rely on a third candidate to win an election. It's called dancing with a scorpion. As he staggers toward the finish line, Clinton is clearly wounded. But for Bush, the scorpion's bite shows every sign of proving lethal.

By Richard S. Dunham and Douglas Harbrecht in Washington

Commentary/by Wendy Zellner

ROSS PEROT, PLAIN AS DAY

To be read aloud in a high, nasal drawl

It's time to live in reality, folks. With Dallas billionaire Ross Perot, what you see is what you get.

Step one: Look at his latest explanation for quitting the Presidential race in July. Now, forget that stuff about a revitalized Democratic party and his desire to avoid throwing the race into the House of Representatives. Stay with me. The real reason for Perot's abrupt withdrawal? He feared that GOP dirty tricksters were out to smear daughter Carolyn with doctored photos and disrupt her August wedding, see? And he discovered later that the Willie Horton crowd, those boys-will-be-boys Republicans, were planning to tap his office phone. You all know what I'm talking about. It's simple.

What you see is what you get: If Perot's lying now, he's just another cynical politician, slinging innuendo and rumor with the best of the dirty tricksters. And if he's telling the truth now, he was fibbing in July, right? Sure, he was just trying to protect his world-class daughter. Couldn't ruin the happiest day of her life by revealing the sordid GOP plot before—or even immediately after—the big event. Never mind that Perot says daughter Carolyn and the rest of his world-class family have faced down death threats from the Vietnamese. Forget that Perot says five Black Panthers once infiltrated his front yard only to be scared off by a guard dog. Carolyn would have been dev-a-stated if she had learned about this Republican Mickey Mouse



salad before the wedding.

You want proof of these GOP shenanigans? Now what am I saying? I didn't say Perot said he believed them. He just said he didn't want to take any risks. Anyway, he won't reveal his in-

formants, except to admit that one of them is Scott Barnes, a former California policeman with a reputation for peddling questionable conspiracy theories. Think it through. Perot has investigated business rivals (hasn't everybody?), sniffed for worldwide government coverups on the POW issue, and unearthed various assassination schemes directed against him.

testy Perot who chastised reporters daring to question these bizarre tales. The real Ross Perot—no-nonsense businessman and steely-eyed patriot—can be seen on paid TV ads and polite talk shows. He doesn't need handlers or \$30,000-a-month consultants. When he needs to taste and touch and feel reality, he heads for the TV studio. What you see is what Ross lets you see. Kind of clears the air, doesn't it?

This is just another one of those media "gotcha" stories, another reporter trying to prove her manhood, right? Let's stick to the issues, folks. If you ask a *Who's Who* of people who know Perot, they'll tell you about his ability to get things done. A senior executive at Ross's old company, Electronic Data Systems, remembers how he'd paste his folksy aphorisms ("Eagles don't flock") everywhere to inspire the troops. "It was kind of management by plaque on the wall," he says. But let's stop living in the past, folks. Ross Perot isn't interested in studying America's problems to death. He's got a slogan, see? "Fair, shared sacrifice." It's simple.

No question, Perot was right on the money at General Motors. If GM's board had listened to Perot back in 1986, instead of kicking him out with \$700 million, the company wouldn't have seen its market share plummet and losses soar. But those folks at GM would rather slow-dance than listen. Here's a hint: Maybe Perot was more inclined to issue orders than to offer suggestions.

So don't ever you worry, Congress. If Perot wins this election, you two will be dancing like Fred and Ginger. As long as Ross gets to call the tune, rest my case.



And how about that woman who dared to challenge him on *Donahue* after Perot first surfaced in this crazy election year? At the time, Perot hinted that the woman was probably a GOP plant. His evidence: her "designer clothes." Perot a conspiracy monger? What you see is what you get. It's simple.

Okay, forget it. This has nothing to do with the issues. Perot doesn't have to prove anything to you people. And pay no attention to that thin-skinned,

IRAQGATE'S SMOKING GUN—AND MISSILES, MINES, AMMO . . .

Did the U.S. arm Saddam? The 'iotas of evidence' are piling up

Did the U.S. covertly help Saddam Hussein build up his military before Iraq's invasion of Kuwait? The question has been raised in Congress and the mainstream press for months now, but it hardly surfaced as a campaign issue until the final Presidential debate on Oct. 19. That's when President Bush, pressed by rival Ross Perot, insisted: "There wasn't one single iota of evidence that any U.S. weapons were found on the [Iraqi] battlefield."

The President obviously hasn't talked to Michael L. Weber, a former Army sergeant, or some of his Desert Storm colleagues. Back in April, Weber wrote Representative Charlie Rose (D-N.C.) complaining about the huge number of American-made munitions that the U.S. captured from the Iraqi army. And he included pictures to prove it. "Clearly, there was a green light given to regulators and U.S. industry to go about selling military technology to Iraq," Rose charges.

MADE IN U.S.A. Weber, who was discharged last April, says he received several awards and honors from the Army during his four-year tour of duty. Colleagues at his home base of Fort Lewis, Wash., confirm those claims.

According to his own account, detailed in an Apr. 9, 1992, letter to Rose and later in interviews with *BUSINESS WEEK*, Weber worked as a photojournalist assigned to the 82nd Airborne Division. He traveled widely to document the war on land. Just after the cease-fire, his unit was assigned to destroy Iraqi munitions stored in two desert airfields along Highway 8 near Nasiriya in Iraq. In that area, he says, U.S. soldiers found a rich hoard of munitions stacked to the rafters in 30 warehouses—some as large as 30,000 square feet. Among the booty Weber saw: French-made cluster bombs, Chinese missiles, and Jordanian artillery shells. "There was every conceivable size of mortar and artillery shells," Weber remembers.

But what caught his eye were American-made 155-millimeter propellant bags, which contain the charge that blasts shells from cannons. Weber says he also

saw crates of U.S. antitank mines. The brigade also found a handful of 5-ton GMC military trucks, Weber says, which had fewer than 5,000 miles on the odometer. "GM stopped making heavy military trucks in 1988," says a company spokesman, adding that he doesn't know how Iraq acquired the vehicles.

Using what he says were his own camera and film, Weber photographed an 82nd Airborne engineer pointing to crates of artillery fuses made by Action



CAPTURED IRAQI MUNITIONS WAREHOUSE, POST-DESERT STORM: ACTION MFG. SAYS THE U.S. GOVERNMENT IS ALMOST THE ONLY BUYER OF SUCH FUSES



Manufacturing Co. in Philadelphia. Arthur J. Mattia, senior engineering vice-president at Action, says the company didn't sell fuses to Iraq over the past decade. Almost the sole buyer for the type of Action fuses stored near Nasiriya, says Mattia: the U.S. government.

No one has accused the Bush Administration of directly shipping U.S. military weapons to Iraq. But the military does contradict Bush's assertion that no U.S. weapons were found in Iraq's battlefield stores. Says a spokesman for the U.S. Central Command at MacDill Air Force Base in Florida: "Our records do show that U.S. troops found such military items. During the Iran-Iraq war, tons of

Western military equipment was captured by Iraq. Iraq also captured U.S. military items from Kuwait, to include Hawk missiles and A4 Skyhawk aircraft. Additionally, a large variety of weapons which are available on the world market, to include rockets and munitions, were found in various locations."

Indeed, there's little doubt the weapons were in wide use throughout Iraq. Weber's story is corroborated by three other veterans of the conflict, who each served in separate parts of Iraq and Kuwait. Desert Storm vet Jeffrey W. Asselin, a former infantryman with the 82nd Airborne, recalls finding boxes of U.S.-made 81-mm mortar rounds in a disabled Iraqi supply truck. Some of the boxes were dated September, 1988—a month after Iraq's cease-fire with Iran. Two other former 82nd Airborne soldiers now living near Fort Bragg, N.C., say they

saw many other U.S. weapons, including M-60 machine guns and M-16 rifles. But the most disturbing piece of U.S. technology in Iraqi warehouses, says one former Army engineer, was electronic circuit boards for Hawk missiles. His outfit was given the task of destroying at least 12 tons of munitions in Iraq.

The whole experience has left Weber disillusioned. In his letter to Rose, he wrote: "I don't think we really changed anything over there. . . . It also ticked me off immensely to learn that U.S. companies sold military hardware to Iraq."

Also disturbed is Representative Henry B. Gonzalez (D-Tex.), who has spent more than two years trying to document an alleged White House attempt to cover up the role played by the U.S. in Iraq's military buildup. On Oct. 27, Gonzalez told the Senate Banking Committee that the Commerce Dept. approved scores of licenses for U.S. technology used in Iraq's most advanced weapons projects—including nuclear weapons.

So far, Gonzalez and Rose have focused their investigations on those high-tech arms. But with the revelation that more prosaic U.S.-made munitions fell into the hands of the Iraqis, a new front has been opened in Iraqgate.

By Michael Schroeder in Washington

IS WASHINGTON GETTING READY TO GIVE UP ON GATT?

The long effort to forge a global trade pact could give way to sanctions

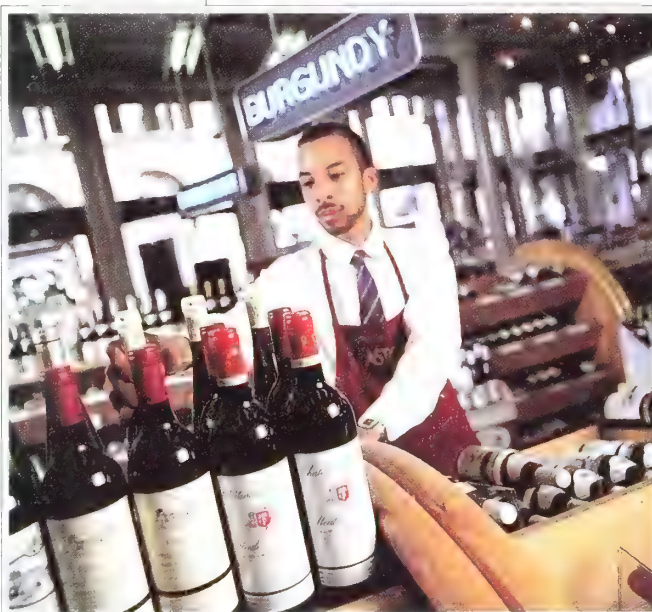
Many important issues hang in the balance in the Presidential election. But for gourmands, the most critical may be the price of a bottle of Bordeaux. The U.S. and the Europeans—particularly the French—have been at odds for more than a decade over farm subsidies. After the voters go to the polls on Nov. 3, it's unlikely the Bush Administration will see much point in prolonging the agony. And should President Bush lose, he need no longer worry about the ire of American consumers. That means he may heed a four-year-old demand by U.S. soybean farmers angry over European Community subsidies and impose 100% duties on French food imports, among them wine, brandy, cheese, truffles, and sausage.

The list represents some \$300 million worth of annual imports. And it could be just the beginning of a round of tit-for-tat trade retaliation. Such may be the denouement of an exhausting seven-year struggle to fashion a worldwide trade pact. The Bush White House has shown near-infinite patience with the negotiations, held under the auspices of the Geneva-based General Agreement on Tariffs & Trade (GATT). Small wonder that wags dismiss the bargaining as the Gentlemen's Agreement to Talk & Talk. Under two successive Republican Administrations, the White House has used the ongoing bargaining as an excuse to turn aside pleas for help from beleaguered U.S. industries.

RICE RUCKUS. The Bush Administration held off on imposing trade sanctions in hopes that the soybean dispute and dozens of others could be resolved through the multilateral talks. But Bush is both losing patience and trying to win the votes of farmers, who say they are losing \$1 billion a year in soybean exports alone because of Europe's intransigence

on subsidies. So, at an Oct. 27 campaign stop in Des Moines, Bush proclaimed: "We are going to have to insist that if they don't open up these markets—would use a little softer term than retaliate—but we are going to have to insist on our rights."

There are other signs that the U.S. is giving up hopes that the GATT logjam will be broken. Take the plight of the



U.S. rice industry. Twice, in 1986 and 1988, the White House turned down formal petitions from the Rice Millers' Assn. to force open the closed Japanese rice market. The Reagan Administration promised instead to take care of the problem in the Uruguay Round, as the current stage of GATT talks is called.

Now, the U.S. rice industry, which has watched its share of the world market decline from 21% to 15.7% in just four years, is crafting a new strategy that would target Japan, Korea, and the European Community for retaliation for their closed markets and massive production subsidies. "The Europeans and the Japanese are playing the same hand—doing exactly to us what they did to the U.S. soybean industry,"

says association President David R. Graves. He estimates European rice subsidies at \$400 a ton, higher even than the world market sales price of \$325 a ton. For American rice growers, there doesn't even appear to be much incentive to go on talking. Tokyo has said the latest compromise proposal is still unsatisfactory, even though it would give imports just 3% of the Japanese market.

SNIPING. Europeans have threatened counterretaliation for any U.S. action on soybeans. And the French have dug in their heels on the trade talks. President François Mitterrand's shaky Socialist government would rather not anger the powerful French farm lobby before parliamentary elections next March. "If the Americans want an agreement, they have to make new offers," says Agriculture Minister Jean-Pierre Soisson.

GOURMANDS
BEWARE: WINE
WILL SHOW BIG
PRICE INCREASES
IF THE GATT TALKS
FAIL. THE U.S.
COULD RETALIATE
AGAINST FRENCH
PRODUCTS IN
ORDER TO FORCE
EC CONCESSIONS

Still, sniping is more likely than an all-out trade war. The White House is being careful to avoid levying duties on European food imports that do not come primarily from France, such as olive oil or gin. If foot-dragging France is hurt the worst by carefully targeted retaliatory U.S. tariffs, Paris may have difficulty persuading other EC members to fire the next shot at Washington. And other EC nations are tired of taking the

heat for the French.

If the trade talks don't explode in a round of recriminations, they may just die a quiet death fairly soon. Without new congressional action, the White House's authority to conduct the negotiations runs out on Mar. 1. While Bill Clinton has endorsed the GATT process, it's unlikely that he would place continued talks at the top of his agenda.

One possible scenario: a face-saving announcement of an agreement in principle with details to be hammered out later, long a ploy in trade negotiations. And then break out the champagne—French, of course.

By Paul Magnaussen in Washington, with Bill Javetski in Paris and Patrick Oster in Brussels

TRADE WAR CASUALTIES?

European products targeted for U.S. retaliation

CHEESE	CUT FLOWERS
SAUSAGE	CAVIAR
PREPARED FISH	WINE
BRANDY	LIQUEURS
MUSHROOMS AND TRUFFLES	

DATA: U.S. TRADE REPRESENTATIVE'S OFFICE



SINGLETON AND HER SONS IN THEIR NEW HOME: AN ALL-TOO-RARE SUCCESS STORY

NO CREDIT DOESN'T NECESSARILY MEAN BAD CREDIT

Dragged into making low-income loans, some banks find it profitable

Elмира Singleton struggled for most of a decade to buy her own home. The 41-year-old mother of two, who earns a modest living as a Philadelphia bakery clerk, tried sheriff's auctions and government sales of abandoned properties. She even spent \$85 for a worthless "how to" book pitched on late-night TV. But on July 14, Singleton's dream became reality when she moved into a 24,500, two-bedroom row house in South Philadelphia, financed by a Fidelity Bank program. "They gave me a chance when nobody else did," she says. Singleton remains a too-rare success story. A Federal Reserve study, released on Oct. 27, shows the nation's banks still offer a dismal job of mortgage lending to low-income minority borrowers. It found that, all else equal, blacks and Hispanics are far more likely to be rejected for mortgages than whites (chart).

NEW NICHE. That's hard news. Yet there are signs that some banks may be making a bit of progress. While demand for conventional mortgages ran flat in 1991, applications from low-income individuals shot up 45%. Much of that surge may be due to lunging interest rates. But some experts feel it

could represent a payoff of work by some banks to provide mortgages, as well as other loans and services, to low-income individuals.

Banks surely didn't go rushing after minority business on their own. Many grudgingly offered services to low-income customers only after activists invoked the Community Reinvestment Act to block banks' plans to merge or expand. The law requires banks to plow money back into the communities where they do business. Over the past decade, CRA protests have yielded \$10 billion in inner-city lending, according to Washington's Center for Community Change.

Although they may have been dragged into the business kicking and screaming, many banks admit they've stumbled upon a new—and modestly profitable—niche in tailoring traditional services to meet the needs of low-income

residents. To get into these markets, banks often enlist the services of the very community activists they had been fighting. Philadelphia's Fidelity, for example, works with the Association of Community Organizations for Reform Now (ACORN). In several cities, churches and community groups screen potential borrowers, then help them make applications. If homeowners fall behind on payments, the groups help them rearrange their finances to catch up. Community groups "are helping bankers relate to a part of the universe they don't feel comfortable in," says Allen J. Fishbein of the Center for Community Change.

PAYOFF. In many instances, activists have had to persuade banks to alter their lending standards to accommodate low-income borrowers. Since relatively few inner-city residents have cars, charge cards, or even checking accounts, many have no credit records. In Philadelphia, ACORN persuaded Continental Bank to apply such alternative tests as how well applicants paid their rent and utility bills. Continental also agreed to waive an employment standard—two years at the same job—and simply ask whether the applicant was continuously employed for at least three years. Notes Continental Senior Vice-President Ralph F. Desiderio: "We've come to understand that the poor have different income streams—and that no credit doesn't necessarily mean bad credit."

At most banks, the new business is paying off: Out of 150 low-income mortgages Continental has written, none has defaulted and only three are more than 60 days past due. Managers at Huntington National Bank in Columbus, Ohio, expect that the 265 mortgages they've written will be just as profitable as other home loans, even though they waive most lending fees.

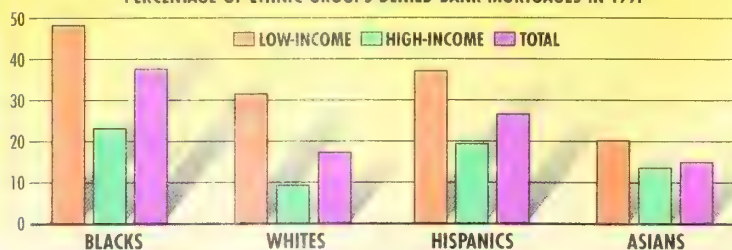
To boost its return, Huntington doesn't take out private mortgage insurance for possible losses. Instead, it hopes housing values will spurt enough to allow it to sell the mortgages into the secondary market—while retaining a tidy servicing fee. "There are ways of pricing these markets that make sense," says Donald E. Walters, senior vice-president at Huntington.

Nationally, these outreach efforts remain the exception. And critics still are pushing banks to live up to their Community Reinvestment Act duties. But if banks figure there's money in these markets, self-interest may make the banks better citizens than regulations ever have.

By Dean Foust in Washington

RACISM PERSISTS WHEN YOU APPLY FOR A MORTGAGE

PERCENTAGE OF ETHNIC GROUPS DENIED BANK MORTGAGES IN 1991



NOTE: STATISTICS DO NOT INCLUDE GOVERNMENT-BACKED MORTGAGES, SUCH AS FHA

DATA: FEDERAL RESERVE

BORDEN FACES FACTS: IT'S TIME TO SHED THE FLAB

With 2,800 snack products alone, a makeover is overdue

A few weeks back, when Borden Inc. invited analysts to St. Louis to show off its new \$50 million pasta plant—North America's largest—it was a prime opportunity for Chief Executive Officer Anthony S. D'Amato to trumpet the successes of his first 10 months on the job. In addition to opening the pasta "hyperplant," where 300 workers produce 250 million pounds of noodles a year, D'Amato had expanded Borden's international operations while slashing the size of its troubled dairy business by 30%.

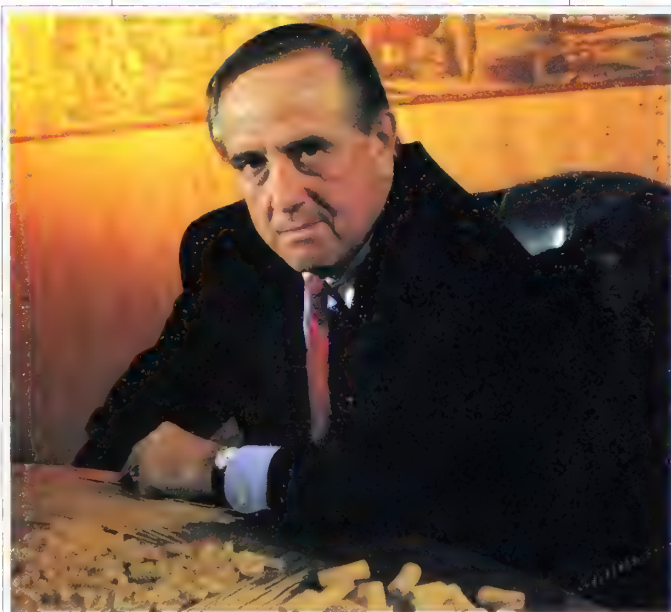
But instead of gloating, D'Amato was all humility. Borden's poor performance in the fierce price wars in processed cheese, snacks, and dairy products forced him to deliver a sobering recitation of all that ails Borden: ineffective marketing, anemic earnings, slipping sales, and evaporating market share. Borden, D'Amato said, is "a fragmented, out-of-date organization that is not up to the increasing pressures of today's economy."

On Oct. 28, D'Amato took action. He announced a complete overhaul of the company. In coming months, 10 plants will close, 3,000 employees will be slashed from the payroll, four food divisions will fold into one, and parts of Borden's sickly snack operation will get the ax. This comes just after it already spent three years cutting 53 other plants and 6,100 workers.

CRUNCHY STUFF. D'Amato's makeover promises to be costly. Borden took a \$642 million pretax restructuring charge, resulting in a third-quarter loss of \$377 million. The charge, an accounting change, and subpar performances in most divisions added up to a \$468 million loss in the first nine months of 1992, compared with a \$252 million profit in the same period a year ago. In supposedly recession-resistant businesses, Borden now hasn't posted a gain in quarterly earnings since 1990's fourth quarter.

D'Amato stresses that the restructuring's objective is not meant to reduce overhead alone. That's what Borden's

1989 revamping aimed to do. Rather, he intends to transform the way Borden brings its myriad products, ranging from industrial resins to Cracker Jack, to market. The company will discard marginal brands and redesign the packaging for all the remaining products. The logo, with its "If it's Borden, it's got to be good" inscription, also will be added to all products. And its long-out-to-



D'AMATO: BORDEN IS "FRAGMENTED" AND "OUT-OF-DATE"

pasture spokesperson, Elsie, will be brought back to hawk dairy products. "It is a solution, a necessary solution, but it shows you the weakness of the company," says Goldman, Sachs & Co. analyst Nomi Ghez.

For the past few years, Borden has been under siege, losing market share to PepsiCo Inc.'s Frito-Lay and Anheuser-Busch Cos.' Eagle Snacks in snack foods and to the Kraft General Foods division of Philip Morris Cos. in processed cheese. Increases in food prices of just

1% this year—the smallest hike in 25 years—give Borden no breathing room.

Borden's woes spring largely from the rush of acquisitions it made in the late 1980s. Founded in 1856 as a purveyor of condensed milk, by 1985 Borden had evolved into a large chemical company with an eclectic mix of niche grocery items and a sizable dairy operation. Then, under the stewardship of former CEO Romeo J. Ventres, Borden began snapping up scores of regional snack-food and pasta makers around the country. Between 1986 and 1991, Borden spent \$1.9 billion on 91 acquisitions.

NOODLING AROUND. Unfortunately, Ventres failed to integrate Borden's new subsidiaries into a single, cohesive network. Instead, he maintained regional brands. The acquisitions were intended

to turn Borden into a national powerhouse in packaged goods. D'Amato says the strategy worked in pasta, where Borden boasts the national brand Creamette and 21 regional brands. But in snacks, Borden never got around to integrating its new products. As one top executive of a major supermarket chain puts it: "It's really difficult to understand what business Borden is in today when you look at the number of items they have." A distant second to Frito-Lay in snacks, Borden has 2,800 items of varying sizes and flavors in North America. Frito-Lay has only 445.

None of this is any surprise to D'Amato, who pledges to cut the number of snack items by at least half. For the future, D'Amato has high expectations for growth in domestic pasta and international grocery products, as well as a national Borden-brand snack line that will be launched next year. His candor is already winning plaudits from analysts. "I knew Borden had problems. I didn't know they had this many problems," says John McMillin, an analyst at Prudential Securities Inc.

Wall Street analysts still insist that Borden must shed a division or two—either snacks or the profitable but peripheral packaging-and-industrial division. D'Amato avers that he has no plans to sell anything right now—while refusing to rule out an eventual sale of the snack division. Instead, he maintains that his strategy will put Borden back on track by next year. But even with Elsie back in the fold, Borden may not be able to afford any sacred cows.

By Elizabeth A. Lesly in New York

Soon: 10 plants close,
3,000 employees exit, four
food divisions unite,
and many snacks get the ax



"I'D HAVE TO GO 30 YEARS WITHOUT MISSING A PUTT

"Let's face it, on most days, I'm lucky to go three holes without missing a putt. So when I say 30 years, I haven't gone off the deep end."

"I'm just making a point about the unbelievably high quality standards that Motorola Cellular sets for itself."

"The fact is, they're among the highest in the world."

"And since Motorola cellular phones are made so well, it should come as no surprise that they're the world's best sellers, delivering the kind of customer satisfaction nobody else can match."

"Motorola. It's an American company setting standards of quality the whole world can shoot for."

"Something that gets a big thumbs up from me."

TO HIT THE QUALITY STANDARDS MOTOROLA SETS FOR ITS CELLULAR PHONES."



Al D'Amico



MOTOROLA
Cellular Telephones



VITULLI WITH THE '93 RX-7: "THIS WAS NOT THE TIME" FOR THE AMATI

THE LUXURY MAZDA JUST COULDN'T AFFORD

With sales off at home, it couldn't gamble on the Amati in the U.S.

So much for Japan's vaunted long-term thinking. Just 14 months ago, Mazda Motor Corp. announced with great fanfare that it would enter America's luxury-car market with two pricey big sedans, a chain of dealers, and a new brand name, Amati. Then reality set in. On Oct. 26, at a hastily called news conference in hometown Hiroshima, Mazda declared that it had changed its mind.

The surprise announcement is the clearest indication yet that a slack world economy, along with rising costs and a sickly home market, have undermined the resolve of Japanese carmakers. Mazda is in an especially precarious position. While the company's passenger-car sales in the U.S. have held steady, its sales in Japan have plunged 7.6% in the first half of its current fiscal year. That has forced Mazda to slash its profit projections for the full year, which ends Mar. 31, 1993, to \$29 million—a 62% drop. Analyst Steve Usher of Kleinwort Benson International in Tokyo goes further, predicting a loss of nearly \$68 million.

SPENDING SPREE. The financial strain was too great to continue development of the costly new flagship car and the new U.S. dealer network. "Regardless of the product, it was beginning to look like Mazda wasn't going to have the cash to convince the public to come take a look at it," says Lewis M. Webb, presi-

dent of Webb Automotive Group in Cerritos, Calif. Webb is one of 82 U.S. and Canadian car dealers that won't get the Amati franchises they had signed up for.

Mazda would have had to spend as much as \$500 million over the next several years subsidizing its new Amati dealers and launching the cars with an advertising blitz, estimates William R. Bruce, general manager of Nissan Motor Co.'s three-year-old Infiniti luxury-car division. Development costs might have added \$330 million more. "With established competitors like Infiniti and Lexus, and with the continued weak economic environment," Bruce notes, "the challenges would have been more difficult than they ever imagined."

Clark J. Vitulli, chief operating officer of Mazda Motor of America Inc., admits as much. "Sure, we could have made a go of it in different times, in a different economy. But it became painfully obvious that this was not the time." Even without Amati, Mazda has spread it-

self pretty thin. It has been spending a \$1 billion-a-year clip at home for past three years in an effort to become Japan's No. 3 carmaker, behind Toyota and Nissan and ahead of Honda and Mitsubishi. It has doubled the number of Mazda showrooms by expanding from three to five distribution channels and has poured money into developing new cars to fill them. Over the past months, it has launched 11 new models—just in time for the market to take Concedes Makoto Miyaji, executive vice president: "Our timing was off."

Mazda also gambled \$500 million on a new flexible assembly line at its Hiroshima plant, where the luxury cars, among others, were to be built. Production started in February, but sluggish sales forced Mazda to throttle back from two shifts to one. The line is now operating at only third capacity.

FORD INJECTION. Mazda's financial troubles have sparked repeated rumors that Ford Motor Co. would raise its 25% stake in the company. This summer, Ford injected \$380 million into its Japanese ally by buying half of Mazda's Ford Rock (Mich.) plant. And it increased its equity in Mazda's Autorama, a distributor that sells some 75,000 Ford-badged cars a year in Japan. But Ford is unlikely to invest more in Mazda itself. "If Mazda gets into trouble, we will help them ourselves," says Sotou Tatsuo, president of Sumitomo Bank Ltd.

Sumitomo has helped before. It engineered the Ford deal in 1979 to bail Mazda out of an earlier financial crunch when the company's innovative but guzzling rotary engine ran into the energy crisis. And the bankers clearly wrote out on Amati. Says Tatsuo: "We agreed with the idea from the start."

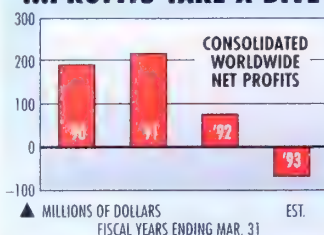
So did most analysts. "Mazda had a business opening a luxury channel,"

says Usher. To get back on track, he says, Mazda needs to scale back its Japanese expansion. One possibility would be to merge the newest dealer networks: Eunos, based around the Miata roadster and the RX-7 and Autozam, targeting young women with minicars and showrooms. Says sayonara to Amati may have been the easiest cut. Alone may not be enough. By Larry Armstrong in Los Angeles and Ken Lowry Miller in Tokyo

WHILE MAZDA'S SALES STALL...



...PROFITS TAKE A DIVE



DATA: COMPANY REPORTS, KLEINWORT BENSON INTERNATIONAL



Eruption of Kilauea volcano on Hawaii

"When you're working on a volcano, your equipment and wits can't fail you."

—Dr. Michael Garcia

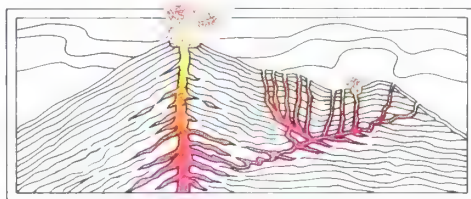
Earthquakes rock the black, rippled terrain. Fire fountains explode from the mountain's side. Iridescent orange lava, as hot as 2100° F, sweeps down the volcano's flanks in thin sheets and swift rivers. The air is filled with the roar of molten rock slamming against a crater wall. It rains pumice.

This is Kilauea, which ascends majestically from the floor of the Pacific and disgorges a continuous stream of lava that can fill a large stadium in less than a day.



Dr. Michael Garcia

Professor Michael Garcia has devoted his career to exploring the mysteries of volcanoes, particularly Kilauea,



Magma conduits inside Kilauea

better anticipate eruptions.

Working in such a hostile environment, Garcia must rely on his experience, instinct and equipment. "You have to respect Kilauea's might—especially when you feel it rumbling beneath your feet," he said. Demanding the highest standards from his instruments, Dr. Garcia insists that they be rugged and reliable.

It's little wonder that he has chosen a Rolex Oyster Perpetual as his timepiece.



ROLEX

Rolex Oyster Perpetual Date Chronometer in stainless steel with matching Oyster bracelet.

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TELEVISION

WILL NBC MEAN 'NABBED BY COS'?

Bill Cosby may be seeking partners in his bid for the network

For much of the 1980s, NBC's success could be summed up in one word: Cosby. Bill Cosby's phenomenally popular TV series propelled the network to the top of the Nielsen ratings. Now, after plumping up the peacock, Cosby wants to buy it lock, stock, and barrel.

In a move that has surprised and intrigued media mavens, the entertainer has taken the first steps toward acquiring National Broadcasting Co. from owner General Electric Co. Cosby hasn't made a formal offer to GE. But his talent agency, William Morris Agency Inc., informed NBC President Robert C. Wright of Cosby's intentions on Oct. 23. Wright insisted the network is not for sale, according to Norman Brokaw, chairman of William Morris. But the two spoke again by phone on Oct. 28. And Cosby's lawyer, Herbert H. Chaice, says he and Brokaw are lining up bankers to advise them on a possible bid. Executives at NBC and GE declined to comment. Cosby himself also was unavailable.

Cosby is only the latest in a parade of Hollywood honchos who are said to be interested in NBC. Others frequently mentioned are Barry Diller, former chairman of Fox Broadcasting Co., and Martin S. Davis, chairman of Paramount Communications Inc. But these potential suitors have steadfastly declined to com-

ment. Cosby, on the other hand, has taken his quest public even before lining up partners or financing.

That has prompted speculation on both coasts that Cosby is trying to rally partners to join him in a bid. Brokaw points out that Diller is a friend of Cosby. And Cosby recently signed a multiyear film and TV development deal with Paramount. "Bill would probably want to bring in some of his close friends," says Brokaw.

SWOON. Media analysts say that even if GE is willing to sell, Cosby couldn't pull off a deal by himself. *The Cosby Show* did make its 55-year-old star one of the richest men in Hollywood. His share of the show's syndication profits alone is estimated at \$300 million. But GE values NBC Inc.—which comprises the network, its owned-and-operated TV stations, and cable properties—at almost \$4 billion. Any buyer would probably have to ante up \$2.5 billion just for the core network and its TV stations, says Nicholas Heymann, an analyst at County NatWest Securities who watches GE.

Some observers wonder why Cosby would want NBC to begin with. After all, the network began a long swoon last season as hit series such as *Cheers* and *Cosby* grew old or left its prime-time



COSBY IN NEW YORK: LINING UP BANKERS TO ADVISE HIM

schedule altogether. NBC trails CBS and ABC in the ratings so far this season. Heymann estimates NBC Inc. will make \$24 million in 1992, but the core network could lose \$20 million. "Why would anybody want to risk their money on that?" asks one prominent media investment banker.

Brokaw says Cosby wants to make NBC home for innovative programming, though he is vague on the details. Indeed, some observers think Cosby's creative juices could jolt NBC out of its torpor. "This guy knows sitcoms, and he knows game shows," says Heymann. "If he could convince people that he is the programming part of the equation, maybe he could line up financing." Even so, former NBC Chairman Grant A. Tinker says a deal only makes sense if Cosby recruits top man-

agers to handle the network's day-to-day operations. Tinker says he needs "8 or 10 guys running it so he can take time off to do Atlantic City."

Cosby's proposal is certainly a long shot. But there's at least one reason to think that TV's richest performer might be in a gambling mood: His new game show is called *You Bet Your Life*.

By Mark Landler in New York, with Ronald Grover in Los Angeles

INSURANCE

A CLOUD OVER XEROX

Andrew and Iniki clobbered its insurance unit and clipped profits

Xerox Corp. faced catcalls on Wall Street 10 years ago for aggressively buying up financial-services companies. But by 1986, its mix of insurance, mutual funds, and real estate businesses contributed nearly half of Xerox's profits, a nice balance to the office-machine business, which was taking a pounding from the Japanese.

Now, the investment community is carping again. On Oct. 27, Xerox reported third-quarter results below analysts'

expectations as problems at its Crum & Forster Inc. insurance unit offset steady growth in sales of new copiers and laser printers. Xerox earned \$135 million, an 11% gain over the comparable 1991 period, on a 4.9% gain in sales, to \$4.5 billion.

ON THE BLOCK? Xerox said it was putting \$444 million of new capital into Crum & Forster to shore up a balance sheet battered by losses from Hurricanes Andrew and Iniki. The money is coming from capital gains from the insurer's bond portfolio. But Xerox warned that problems might continue to plague Crum & Forster in the fourth quarter. That uncertainty, plus the potential for further restructuring in the financial-services business, led Moody's Investors Service to downgrade the rating of a Crum & Forster subsidiary and place under review some \$6 billion of Xerox debt.

Xerox may be cleaning up Crum & Forster's bond portfolio to make a sale

of the unit more attractive. While Xerox officials would not comment on that possibility, the company has been aggressively casting off its financial-services units. In early October, it announced the sale of its Van Kampen Merritt Co. money management operation to Clayton Dubilier & Rice for \$360 million. Xerox will realize about \$100 million on the sale, expected to close early next year. In 1991, Xerox pared \$1.4 billion more in financial-services businesses.

Shedding the insurance operation would allow Xerox to focus on its more profitable office-automation business. Although financial services contribute one-third of Xerox's 1991 revenues of \$13.8 billion, they accounted for only 3% of profits. And Xerox is gaining good notices for its new business machine based on digital technology. They might win some applause on Wall Street, too.

By Tim Smart in New Haven

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WILL THE CASINO COME MARCHIN' IN?

Lawsuits and other problems threaten New Orleans' mammoth project

Laissez les bons temps rouler—let the good times roll. Few cities do that better than New Orleans, where the historic French Quarter provides the backdrop for good jazz, spicy food, and risqué fun. Now, the Big Easy wants to add casino gambling to the ambience. But even as Mayor Sidney Barthelemy prepares to choose a bidder for the city-owned casino site, lawsuits and other problems threaten to delay or block construction of what could be the world's largest casino.

The stakes are high for the four teams bidding on the project (table), which could produce up to \$20 million a year in profits. Impoverished New Orleans has plenty riding on the deal, too. Hit by the collapsing oil industry in the 1980s, the city has struggled for years with budget deficits. The casino project is expected to generate at least \$30 million a year in revenue for the city and create up to 12,000 permanent jobs. "It's the only thing we have left to stimulate the economy," says Barthelemy.

HURDLES. But the jackpot could still elude the mayor. Opponents have filed two separate lawsuits challenging the constitutionality of the casino, which was approved by the legislature in June. Casino foes say the constitution requires the state to "define and suppress gambling." The legal showdown, which

should be resolved in the state supreme court by yearend, could also threaten Louisiana's numerous other gambling outlets—from horse racing to video poker. Plus, riverboat casino gambling is expected to get under way in 1994.

Legislators have tried to get around the constitutional language by defining these activities as "gaming" instead of gambling. "Until the legislature says something is gambling, it's not," contends the state's attorney, Leon Gary Jr. Still, the lawsuits can't be dismissed. "I don't think any casino operator will go forward with trying to build a casino until this is resolved," says C. B. Forgivenston Jr., a spokesman for the plaintiffs in one of the lawsuits.

Those vying for the right to own and operate the casino face other hurdles. Just consider the convoluted bidding process. State law says New Orleans may have only one casino, to be located at the Rivergate, a little-used convention complex just outside the French Quarter. Since the city owns the property, Barthelemy is set to choose a leaseholder on Nov. 5. But the state will separately select and regulate the casino's operator. Thus it's possible that the city and state could award the contracts to two different groups. "We all wish this was done a little more cleanly," says Philip G. Satre, president of Harrah's Casino Hotels,

which is bidding with partner Mirage Resorts Inc.

The winning bidders are also likely to challenge the state's hefty casino tax. The casino operator would have to pay the state 18.5% on gross revenue, or \$100 million annually, whichever is greater. The tax rate on casinos in New Jersey is only 8% and a mere 6.25% in Nevada. The tax burden is one reason that Hilton Hotels Corp. and several others dropped out of the running months ago. If Mirage/Harrah's gets the nod, "we'll need to have discussions to see if we can make the environment more conducive to doing business there, or maybe we don't break ground," says Stephen A. Wynn, Mirage's chairman.

INSIDE TRACK. Wynn may not need to worry, even though his Mirage/Harrah's group won the highest rating from independent casino experts who evaluated the bids. Many New Orleans observers are placing their bets on hometown developer Daniel P. Robinowitz and his partners, Hawaiian resort developer Christopher Hemminger and Caesars Celebration Park Casino. The team has forged ties with Barthelemy and Governor Edwin Edwards by hiring top advisers from both camps. "I'll be shocked if they don't get it," says Mitch Landrieu, a state representative and son of long-time former Mayor Moon Landrieu.

Rivals still insist that merit, not politics, will win the day. "We can't let it be a political decision," says Wendell H. Gauthier, chairman of the local investor group that's teamed with Showboat Inc. "Our future depends too much on this." Sounds like a big gamble—er, game.

By Stephanie Anderson Forest in New Orleans, with Ronald Grover in Los Angeles and bureau reports

THE CHIPS ARE DOWN: WHO'S COMPETING FOR A NEW ORLEANS CASINO

PROJECT NAME	OWNERS	OPERATORS	PLAN	COST
CASINO ORLEANS	Businessman Jerry Bayles of Monroe, La., and other out-of-state investors	Carnival Cruise Lines, Casinos Austria	Demolish Rivergate, build casino topped by park and a glass pyramid	\$225 million
CASINO ROYALE	Mirage Resorts and Harrah's Casino Hotels	Mirage Resorts and Harrah's Casino Hotels	Demolish Rivergate, build ornate circular casino	\$400 million
GRAND PALAIS	New Orleans developer Daniel Robinowitz and others	Caesars Celebration Park Casino	Demolish Rivergate, build palace-like casino	\$428 million
JAZZVILLE	10 Louisianans	Showboat	Renovate Rivergate with jazz-theme design	\$206 million

DATA: BIDDERS' PROPOSALS; CITY OF NEW ORLEANS

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

STAR PRODUCERS

Standard & Poor's Corp. has just released a list of 93 non-financial companies with strong five-year growth in sales per employee. The 10 outfits culled from that list all have outpaced the 7.7% average annual gain in sales productivity posted by the companies in the S&P industrial index

COMPANY	FIVE-YEAR SALES GROWTH	
	PER EMPLOYEE	OVERALL
BOEING	10.1	14.9%
CONNER PERIPHERALS	22.5	100.3
GE	15.6	11.6
HARLEY-DAVIDSON	15.9	20.5
MOTOROLA	12.9	15.0
HERSHEY FOODS	39.8	5.5
LORAL	13.3	27.1
MCDONALD'S	8.3	10.3
MERCK	10.2	15.4
PHILLIPS-VAN HEUSEN	8.8	13.4

SOURCE: STANDARD & POOR'S CORP.

O&Y: IT'S THE REICHMANN'S LOSS

► Toronto's Reichmann family is almost sure to lose control of giant Olympia & York Developments. The question is when. Under a plan submitted by the Reichmanns in Canadian court on Oct. 28, they would cede 90% of O&Y's Canadian arm to creditors over three to five years. Under a separate plan, the Reichmanns would offer creditors 49% of their U.S. holdings.

Even those concessions may not be enough, however. Canadian and U.S. debt-holders, including Prudential Insurance, may hold out for better terms.

DRACKETT COULD HELP JOHNSON WAX MOP UP

► It was a busy week for S. C. Johnson & Son. On Oct. 27, the company, popularly known as Johnson Wax,

shelled out \$1.15 billion for Bristol-Myers Squibb's Drackett household-products unit. Drackett, with annual revenues of \$600 million, sells such brands as Windex glass cleaner, Drano drain opener, and Vanish toilet-bowl cleaner. Johnson CEO Richard Carpenter says Drackett has great growth potential, particularly overseas.

He'd better be right. Most analysts predicted Drackett would fetch around \$900 million, but a bidding war drove up the price. On the other hand, Carpenter won't be around to see how things work: He's retiring. On Oct. 26, the company announced that William George Jr., chief operating officer of Johnson's worldwide consumer-products division, would become chief executive on Jan. 1.

HABITAT GETS A DUTCH MASTER

► Another British relic of the swinging '60s has been sold. On Oct. 26, SIF, a Netherlands company that owns Ikea, the Swedish furniture chain, paid \$125 million for the 76 European shops of Habitat, a unit of Storehouse. The deal does not include 19 Conran's Habitat stores in the U.S., still up for sale. The European outlets lost \$1.7 million, on sales of \$268 million, in the year ended Mar. 30.

Habitat, a retailing break-

A PAUSE THAT REFRESHES—THE LIBIDO?

You've got the uncola. You've got the choice of a new generation. But can you handle the sex cola? Al Burke, a former Pepsi-Cola bottler, now runs U.S. Beverage Corp. in Longview, Tex. Burke imports Australian beverages, among them Bondi Cola. Secret ingredient: ginseng. Many consider the extract of the spicy root a general pick-me-up—and an aphrodisiac.

So how do you sell a love potion in Aisle 3 of the local supermarket? "Without actually saying it," says Burke. Example: A promotional poster for Bondi shows a young, scantily clad woman ruefully eyeing a snoozing man. "Your romance asleep?" asks the copy. "Give him Bondi Cola with ginseng. He'll perk up in no time!" Bondi Cola is just now headed to stores, so its consumer reception is an unknown. But Chris Crowley of Bondi distributor Polar Corp. in Worcester, Mass. expects "it probably won't be growing hair in the warehouse."



through when designer and entrepreneur Sir Terence Conran founded it in 1964, forever changed the housewares business—with light-hearted, mix-and-match furnishings that any young graduate could afford. In fact, the Conran style paved the way for stores such as Ikea.

FUZZY RECEPTION AT ZENITH

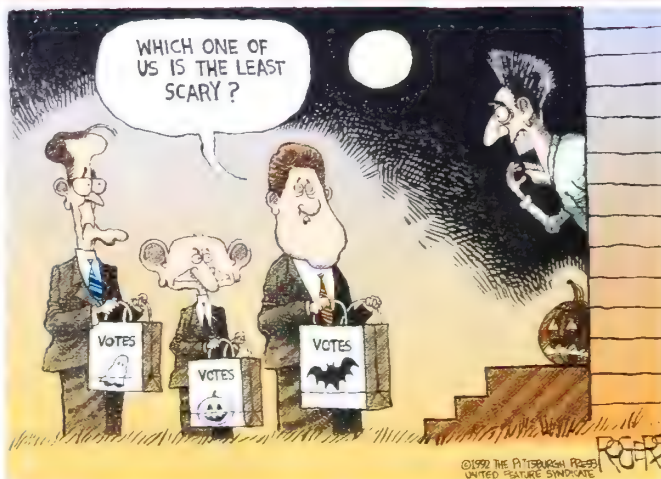
► The picture for Zenith Electronics is getting worse. In the third quarter, the last major American TV maker lost \$41.8 million, compared with a loss of \$1.5 million in 1991.

That brings its loss for the first nine months to \$85.6 million, vs. a deficit of \$52.1 million last year, on sales of \$85 million, a 7% drop. Nearly half of the third-quarter loss comes from \$23 million in charges to cover layoffs of 390 salaried workers—15% of its U.S. staff—as well as the cost of moving most of its U.S. operations to Mexico. Because of its dismal results, Zenith is reconsidering its plan to sell 8 million new shares.

REEBOK'S PUMP IS PATENT-PRIMED

► After a long wait, Reebok International on Oct. 27 won a patent on its inflatable Pump sneakers. But few competitors need fear a patent-infringement suit. The patent doesn't apply to pumps in baseball gloves, helmets, or any product other than shoes.

Reebok has sued I. A. Geary for its Regulator sneaker and it may also sue Far Eastern makers of unbranded clones. But Nike is safe. Nike took its pump basketball shoe off the market in May. Nike reason? "The technology doesn't enhance performance," sniffs a spokesman.



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what keeps Americans from owning homes.

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of those surveyed believe

discrimination keeps minorities from having as

good a chance as whites to get any kind of

housing they can afford. Faced with these and other obstacles, Americans are willing to make sacrifices to achieve homeownership. In fact, they retain a healthy optimism. A full

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homeownership is

attainable for most

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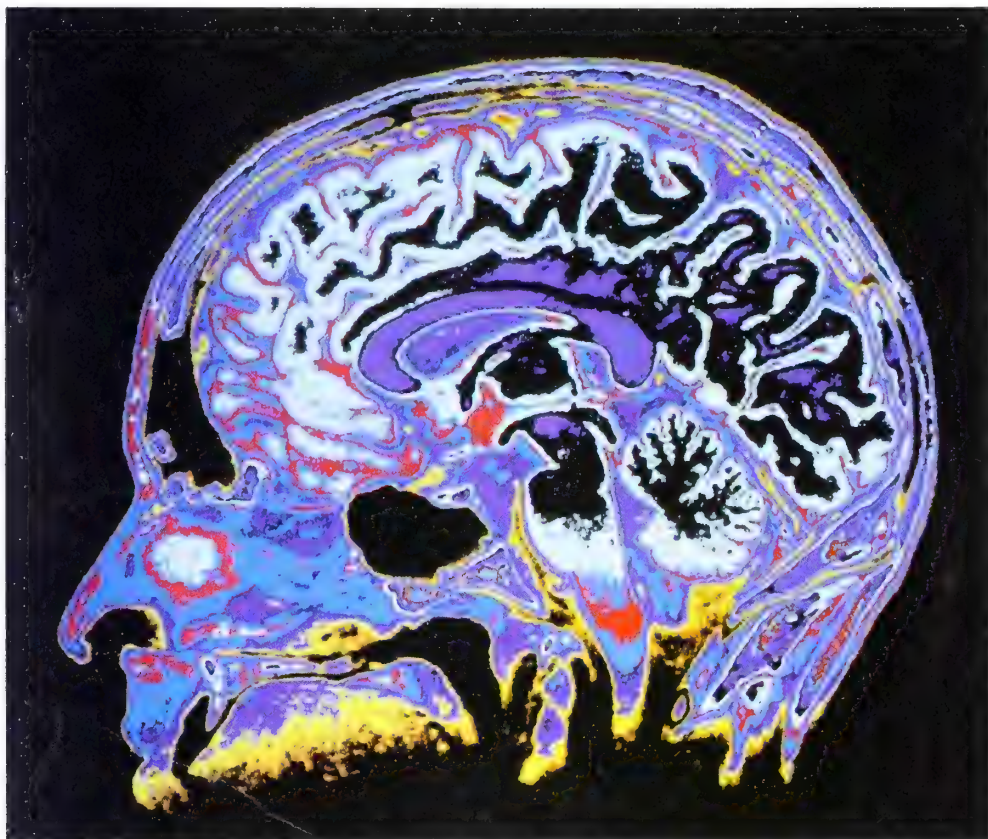
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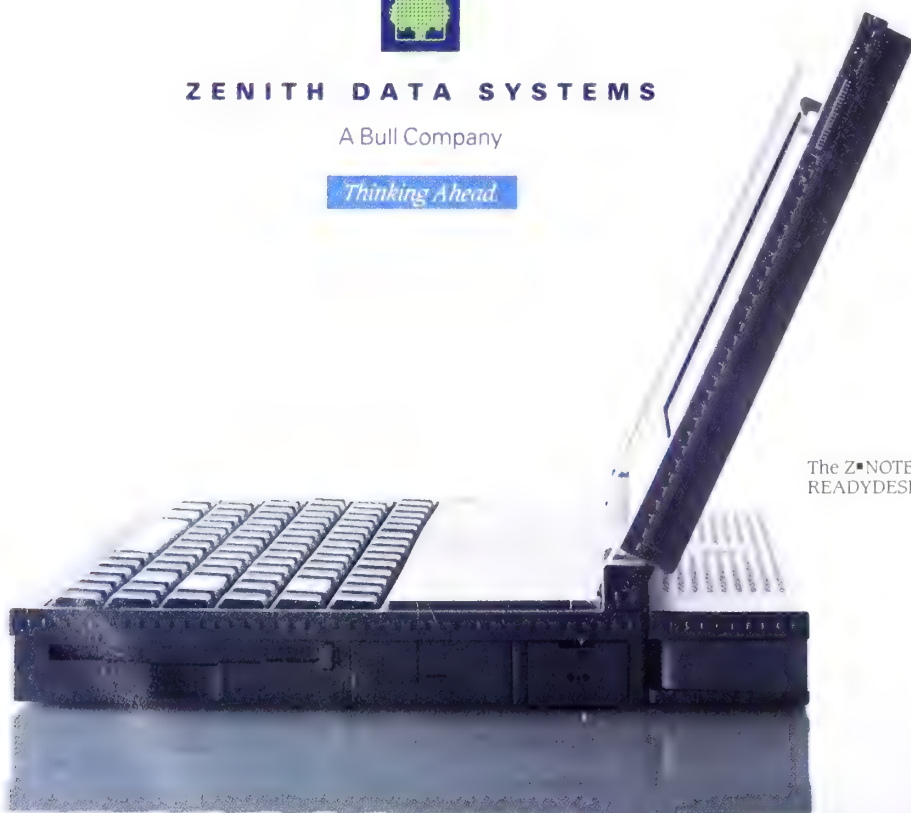
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WHY CLINTON THE TRADE HAWK HAS EXPORTERS QUAKING

When it comes to prying open export markets and helping U.S. companies slug it out abroad, Bill Clinton has promised to be a fierce advocate. So why does the likelihood of a Clinton Administration give so many big U.S. exporters the willies?

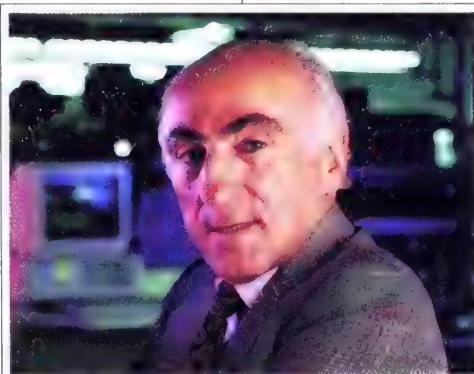
Shades of Jimmy Carter, that's why. The U.S. export lobby is afraid that Clinton, like Carter, might use trade sanctions as a human-rights crusade. So delegations representing leading multinationals, including Boeing Co. and IBM, are offering Clintonites some unsolicited advice—on issues from U.S.-China trade to overhauling America's export-control policies. "A lot of us are very nervous about Clinton," says Howard Lewis, vice-president for international affairs at the National Association of Manufacturers. "This would be a hell of a time to start disrupting our commercial relations abroad."

Clinton has given them some cause for concern. He has pledged to link renewal of China's most-favored-nation trading status to Beijing's progress on democratic reforms and on limiting arms sales to global hot spots. And he has talked in general terms of a greater commitment to human rights as a guiding principle of U.S. policy.

OVERBLOWN FEARS? High-tech manufacturers are among Clinton's major business supporters, but even they are jumpy. House Democrats, led by Banking Committee Chairman Henry B. Gonzalez (D-Tex.), have savaged Bush for aiding Saddam Hussein's arms buildup and nuclear research by allowing sales of computers, software, and other high-tech items to Iraq. In reaction, Clinton might want to keep tight controls on exports to such countries as India, Iran, and Vietnam. "The big security risk of the 1990s will be weapons proliferation," insists Representative Lee H. Hamilton (D-Ind.), who is mentioned as a possible Secretary of State in a Clinton Administration.

But business fears may be overblown. Carter was willing to sacrifice U.S. economic interests to promote foreign policy goals—witness the grain embargo imposed on Moscow after its invasion of Afghanistan. But it was the Reagan White House that championed unilateral sanctions. Under Reagan, Caterpillar Inc. and Dresser Industries Inc. took a beating when they were barred from selling equipment for a Soviet gas pipeline to Western Europe. And U.S. computer makers chafed under restrictions that kept them from selling commercial equipment to Warsaw Pact nations.

But the Clinton campaign, eager to assure Corporate America that it will take care of business, realizes it has a problem. Admiral William J. Crowe Jr., a former Joint Chiefs of Staff chairman turned Clinton campaigner, has fielded dozens of calls from worried defense lobbyists. During a campaign trip to California, Dave McCurdy (D-Okla.), chairman of the House Intelligence Committee and a close Clinton associate, says he spent a lot of time "raising the comfort levels" of defense lobbyists. And Clinton himself has met three times recently with Bernard L. Schwartz, chairman of Loral Corp., one of the few Democrats in the defense industry's top echelons. "I told



SCHWARTZ: A DEFENSE EXEC FOR CLINTON

him the country needs a viable industrial base, whatever the cost," says Schwartz.

Clinton aides insist that he will aggressively promote American business interests abroad. Says defense adviser John D. Holum, who served in the Carter State Dept.: "Clinton realizes that you can't create democratic movements where they don't exist." And Clinton realizes something else: If he wins, he'll owe his victory to his promises to spur growth and employment. That may make him reluctant to mess with one of the economy's few success stories, its export sector.

By Brian Bremner in Washington

CAPITAL WRAPUP

MARKETS

Wall Street and the Clinton campaign have been eyeing each other like two scorpions in a bottle. Hypernervous bond traders have convinced themselves that a Clinton victory might unleash an inflationary spending binge. And Bill Clinton knows that an economy-slowng spike in interest rates would get his Presidency off to the worst possible start. Now, Clinton has designated a top adviser, Robert J. Rubin, co-chairman of Goldman, Sachs & Co., as his troubleshooter on the Street. Rubin has been working to calm traders' fears about Clinton policies and to quench market brush-

fires fed by rumors about Clinton's intentions. And he has been advising fellow Clintonites what not to say or do to avoid roiling the credit markets.

MONEY POLITICS

New Federal Election Commission figures illustrate the power of 800 numbers. The unconventional method was Democratic Presidential contender Jerry Brown's key money-gathering tool, raking in \$5.2 million from individuals. On Sept. 30, Brown had \$530,297 on hand, which he could use to fund future campaigns. By contrast, Bill Clinton raised \$27.5 million from individuals—but with the aid of the party's full fund-raising apparatus.

TURNOUT

We won't know until the polls close whether the intense interest in this year's election will reverse a long trend of steadily declining voter participation. But hard evidence is reinforcing anecdotal impressions that voters are more excited than in any recent election. In Michigan, 89% of adults have registered. All told, 6.1 million Michiganders are eligible to vote on Nov. 3, up from 5.9 million in 1988. In Illinois, registration totals 6.7 million, up from 6.3 million four years ago. And in North Carolina, the registration tally of 3.8 million voters represents an 11.2% increase over 1988.

NORTHERN DISORDER

NAFTA is in trouble—and Canada is more divided than ever

In the early morning hours of Oct. 25, the tensions that have long threatened to tear Canada apart were all but forgotten. Half a million exultant baseball fans—many waving Canadian flags and singing *O Canada*—filled the streets to celebrate the victorious Toronto Blue Jays, the first-ever Canadian team to win the World Series. But it was a fleeting moment of national pride. The very next day, voters overwhelmingly rejected a proposed package of constitutional changes aimed at keeping the country united.

Now, Canada has been plunged into turmoil that could have implications for all of North America. Dashed, in all

stunning rebuke to Canada's ruling elite. When political leaders proposed the accord on Aug. 28, they assumed it would be enough to satisfy Quebec's demands for more autonomy, as well as calls from such Western provinces as Alberta and British Columbia for more say in national affairs. On board were Canada's top political parties, all provincial premiers, and most of Canada's business Establishment and major newspapers.

'AN ASSAULT.' But they badly underestimated the public's antipathy to Ottawa. Some 54% of voters and 6 out of 10 provinces flatly said no. "It was an assault by those on the outside" against the insiders, says Canadian pollster Angus Reid. Overnight, Canadian leaders were facing deeper divisions than ever.

There's little danger that Canada will be breaking apart soon. But as new regional protest parties rise, the next federal government is likely to be weaker and less able to tackle the nation's pressing economic problems.

The first casualty is likely to be Mulroney, who must call a national election in 1993. More than anyone else, Mulroney was seen as the

architect of the package. Its repudiation is perhaps the final humiliation for a man whose approval ratings have sunk below 20%. Now, few political experts believe Mulroney has any hope of winning the next election, and some say he may even resign this winter.

The fallout extends to Mulroney's Progressive Conservative Party. In the next election, they "will be the big losers," predicts Lorne Bozinoff, executive vice-president of Gallup Canada Inc. The big winners are likely to be two regional parties—the separatist Bloc Québécois in Quebec and the Calgary-based Reform Party, led by populist politician Preston Manning. That would lead to the



A LOGGING TRUCK ON VANCOUVER ISLAND: ANTIPATHY TOWARD OTTAWA

probability, are the reelection hopes of Prime Minister Brian Mulroney. Chances are diminished that Canada will ratify the North American Free Trade Agreement. And, most far-reaching of all, the decisive no vote in the French-speaking province of Quebec gives a big boost to the independence movement there. "This time, we said what we don't want," declared an exultant Jacques Parizeau, leader of the nationalist Parti Québécois. Vowing to mount an all-out push for sovereignty, he added: "Next time, we'll say what we want."

The referendum's rejection was a





fracturing of the next Parliament into five parties, forcing the Liberals to form a weaker coalition government that would be unable to take strong action on pressing problems such as the Canadian deficit.

That scenario spells trouble for NAFTA. A clear majority of Canadians oppose both the 1989 U.S.-Canada Free Trade Agreement and the pending NAFTA accord, which includes Mexico. Getting NAFTA approved "was always going to be a tough sled," concedes Thomas P. d'Aquino, president of the Business Council on National Issues. But now, with politicians forced to pay closer attention to public discontent, there's a greater chance Canada will reject the deal.

Mulroney has the votes right now to push the accord through Parliament, even though the opposition Liberal and New Democratic Parties are against it in its current form. But he will be under increasing pressure to hold off a NAFTA vote until it is approved by the U.S. Congress. That could mean that Parliament may not act before the next Canadian elections, which must be called in the next year. "And I would very much doubt that NAFTA would pass in Parliament following the [Canadian] election," predicts Alfred Powis, chairman of the giant natural-resource company Noranda Inc. That's because a new coalition government would better reflect popular opposition to the trade accord.

BIG CHILL. For the Canadian economy, the no vote couldn't have come at a worse time. Ravaged by a recession far worse than in the U.S., the economy is essentially dead in the water. Unemployment is 11.4%, and growth is all but invisible. Now, Canadian business and foreign investors must grapple with the added burden of political uncertainty. "The financial markets have spoken very clearly," warns Trade Minister Michael H. Wilson. Their message, he adds, is obvious: "A no vote... is negative for the economy."

Indeed, the growing certainty of a no vote pushed the Canadian dollar down to around 80¢, from 84¢ in midsummer. That forced the Bank of Canada to raise its bank rate as high as 7.93%, up from 4.93% in early September. While markets strengthened following the vote, they are likely to remain unsettled by the country's murky future. Lloyd Atkinson,

chief economist at the Bank of Montreal, thinks Canada will have to pay a

"premium" for its money, with short-term interest rates hovering at least 2.5 percentage points higher than those in the U.S.

The likely result: continuing high unemployment, slower growth, and a weak dollar. "And the vote obviously won't be helpful in attracting foreign investment," adds Noranda's Powis. Indeed, on Oct. 27, Dominion Textile Inc., Canada's largest textile company, warned it may move its headquarters office out of Montreal if the questions over Quebec continue.

Now, everyone is watching for the political fallout. The no vote energized the Parti Québécois, which is currently running neck-and-neck with the ruling Liberal Party and its leader, Quebec Premier Robert Bourassa. The separatists have their next chance in provincial elections, which must be held by 1994. If the

AFTER THE NO VOTE



► By staking his reputation on a yes vote, an already unpopular Prime Minister Brian Mulroney could now face defeat in next year's election

- Parliament will be splintered as the two parties that fought for a no vote, the Calgary-based Reform Party and Bloc Québécois, win seats
- In Quebec, the Parti Québécois will step up its campaign for sovereignty
- Free-trade accord with the U.S. and Mexico may be rejected
- Investment and the economy could stall in the face of uncertainty
- Interest rates are dropping but will remain far higher than U.S. rates

DATA INC.

Parti Québécois wins, they have vowed to hold a referendum on Quebec sovereignty within a year.

Canada has been through so many years of constitutional wrangling that it was easy for many to shrug off the October vote. But in fact, Canada may have taken an irrevocable step, rejecting one of its last chances to heal its divisions. This "will come back to haunt us," predicts Constitutional Affairs Minister Joe Clark, who spent the past 18 months putting together the failed accord. Now, a breakup is no longer unthinkable. The reverberations of Canada's loud no will be felt for a long time.

By William C. Symonds in Toronto

RALLY IN MONTREAL: QUEBEC SEPARATISTS GET A BIG BOOST

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JAPAN



TOO MANY SHOPPERS ARE LINGERING FOR A MOMENT AT THE WINDOWS—THEN MOVING ON

JAPAN'S SLUMP MAY BE SETTLING IN FOR A LONG STAY

Consumers keep their wallets shut—and the economy in the doldrums

Shoji and Noriko Sanada have plenty of money. He has a good job as a systems engineer with computer maker Nihon Unisys Ltd. She dabbles in the stock market and is at least holding her own. They've paid for their two-story home outside Tokyo and socked away enough for their two sons' college education. But they don't have such things as a giant-screen TV or a VCR loaded with bells and whistles. Indeed, the Sanadas haven't made a major consumer purchase since early this year, when they redecorated an upstairs room.

All across Japan, consumers such as the Sanadas are keeping their wallets closed, and that's bad news for the economy. Sure, the government has its \$87 billion economic stimulus package kicking in late this year. There's even a proposal in the works to help Japan's hard-pressed banks. By next spring, Japan's economy is supposed to be humming. A few economists, such as Toshio Suzuki at Nomura Research Institute Ltd., see growth rising as much as 4% next year, vs. an estimated 2% in 1992. But consumers call the tune for 57% of Japan's gross national product. If they don't loosen up, Japan's economy could stay sluggish far longer than anyone expects.

Consumer spending this year is a write-off. It's expected to grow margin-

ally at best, squeezed by the downturn in such key industries as autos and consumer electronics. Department-store sales are showing a year-to-year decline (chart). What growth Japan is getting is coming mostly from exports and public works projects.

BEARISH. Next year doesn't look a lot better. With sales weak and corporate profits sinking, Japanese companies are putting the squeeze on their workers. Overtime, which generates a large chunk of blue-collar pay, is falling. And salaried workers' bonuses, which account for a third or more of take-home pay, are likely to take a hit, too. Major companies ranging from Nihon Unisys to Japan Air Lines are already warning employees that bonuses are likely to be lighter next year. The upshot: Many economists are bearish on consumer spending. Tetsuo Tsukimura, for example, chief economist in Japan for Smith Barney, Harris Upham International Inc., thinks that real consumer income will fall next year, and so will spending, shaving up to 1.2% from the nation's GNP. He says some major

companies are seriously considering the unthinkable in Japan: outright firing of regular employees. They have to, he says, with earnings so poor. By one estimate, corporate profits will drop nearly 18% this year.

No major Japanese companies are publicly contemplating firings yet, although many are planning to reduce staff through attrition. But major makers of consumer goods have been cutting their sales projections left and right and girding in other ways for lean times. Minolta Camera Co., expecting revenues to be down slightly this year, plans to leave unfilled about 1,000 positions over the next three years. Minolta will be transferring some of its workers to sales affiliates to help drum up new business.

MIND FACTOR. Matsushita Electric Industrial Co., one of the world's biggest consumer-electronics companies, also is preparing for the worst: President Akio Tanii told employees in September that the company must gird itself to maintain profitability even if revenues are flat for the next three years. In late October, Matsushita announced a 54% drop in first-half earnings, along with a cut in executive pay. And Nissan Motor Co., where President Yoshifumi Tsuji is out to improve productivity by a third over the next three years, recently dropped 110,000 vehicles from its sales projections for this fiscal year. Consumers, once ready to try anything new, says Katsunobu Sobajima, who oversees consumer research for Nissan, are "returning to the basics." The consumer confidence index, as measured by Japan's Economic Planning Agency, is now at its lowest level since 1980.

No wonder so many private economists doubt the government fiscal package will turn things around. After all the naysayers argue, public works only account for about 8% of GNP.

That gives added importance to the purely psychological impact of the package. Even the Bank of Japan is pinning its hopes on a change in consumer attitudes. The central bank maintains that the fiscal and monetary measures enacted so far will turn the economy around, but only if personal consumption does not drop further. BOJ isn't saying what would happen if things don't turn out that way, but the answer seems sure to be several more quarters of poor performance. The message: Don't count on Japan for helping to restart the global economy.

By Larry Holyoke in Tokyo

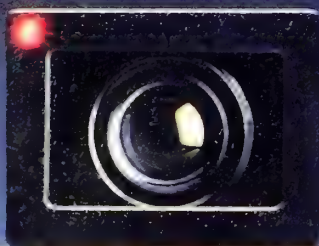
DARK DAYS FOR JAPAN'S RETAILERS



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FOR YELTSIN'S FOES, 'IT'S NOW OR NEVER'

Russian President Boris N. Yeltsin is about to face his most serious challenge since the failed coup of August, 1991. Two powerful groups are launching sharp attacks on his reform efforts. One is a coalition of angry former communists and Russian nationalists called the National Salvation Front, which wants to oust Yeltsin and his government. The other, the more moderate Civic Union led by state-industry leader Arkady Volsky, is trying to put the brakes on a huge sell-off of state assets scheduled to start in December.

The showdown should begin at a special Congress of People's Deputies beginning on Dec. 1. Yeltsin suffered one tactical defeat recently when he lost a vote to delay the congress. While the big event will be a vote of confidence in the government, the real issue is the plan to sell off 60% of state industry by yearend 1993. Bureaucrats and managers of military enterprises are heavily represented in the congress. A core group of them still staunchly resist privatization, fearing it will cost them their jobs. "For those who want to retain privileges and stop reform, it's now or never," says Pyotr Filippov, chairman of the Russian parliament's subcommittee on privatization.

BANNED PARTY. The challenge from the opposition has backed Yeltsin into a tight corner. The National Salvation Front, if backed by Volsky's group, would have enough votes to oust acting Prime Minister Yegor T. Gaidar, a radical reformer, as well as his Cabinet. They are unlikely to get enough votes to oust Yeltsin. That's because Volsky, while in favor of getting rid of some ministers, still supports the president. But the government is clearly on the defensive. It recently said that mid-November talks with the International Monetary Fund on foreign aid and reform would likely be delayed.

In the coming weeks, Yeltsin will be scrambling to blunt the opposition attacks. He just issued a decree banning the National Salvation Front, and there are rumors of other authoritarian measures. But it is unclear whether he can make such moves stick.

Government officials say that Yeltsin may shake up the Cabinet but try to keep the two crucial figures—Gaidar and his privatization minister, Anatoly Chubais. But he may be forced to compromise with Volsky's clique. That would mean either firing Gaidar or saddling him with a far more state-regulated economy than he wants.

OMINOUS SIGNS? A more radical option under discussion is for Yeltsin to call a referendum on holding new elections. The current Congress, elected in 1990, is now widely considered to be more conservative than the populace, and he might well win.

While Yeltsin has yet to show his cards, the increasing power of the communist and nationalist opposition is causing concern. Particularly ominous is the growing presence in the opposition ranks of such controversial figures as Army General Albert Makashev and anti-Western KGB bigwig Alexander Sterligov. The growing influence of such figures could lead to instability in the security forces and perhaps an attempt to restore the command economy. "It would be a disaster," says Foreign Minister Andrei Kozyrev.

Even if Yeltsin holds the opposition off, the government is unlikely to be in any position to agree to meet the stiff IMF requirements that are the key to winning more Western aid. Whatever the outcome, the ongoing political fight is likely to cast a pall over economic reform.

By Rose Brady in Moscow



AN ANTI-PRIVATIZATION RALLY IN RED SQUARE

GLOBAL WRAPUP

GERMANY

German Chancellor Helmut Kohl has finally admitted this week what economists, bankers, and businessmen knew two years ago, when the West signed up to bail out the East: The tab for reunification is going to be colossal. Kohl is warning that new taxes will be needed to service an estimated \$260 billion in off-budget expenses, including debt piled up by the Treuhand privatization agency, which the government must begin paying off in 1995. But economists predict the \$260 billion estimate could rise as much as 50% by 1995. Kohl is using the fiscal crunch to put pressure on

unions to cut their wage demands and on federal and state governments to pare back spending.

RUSSIA

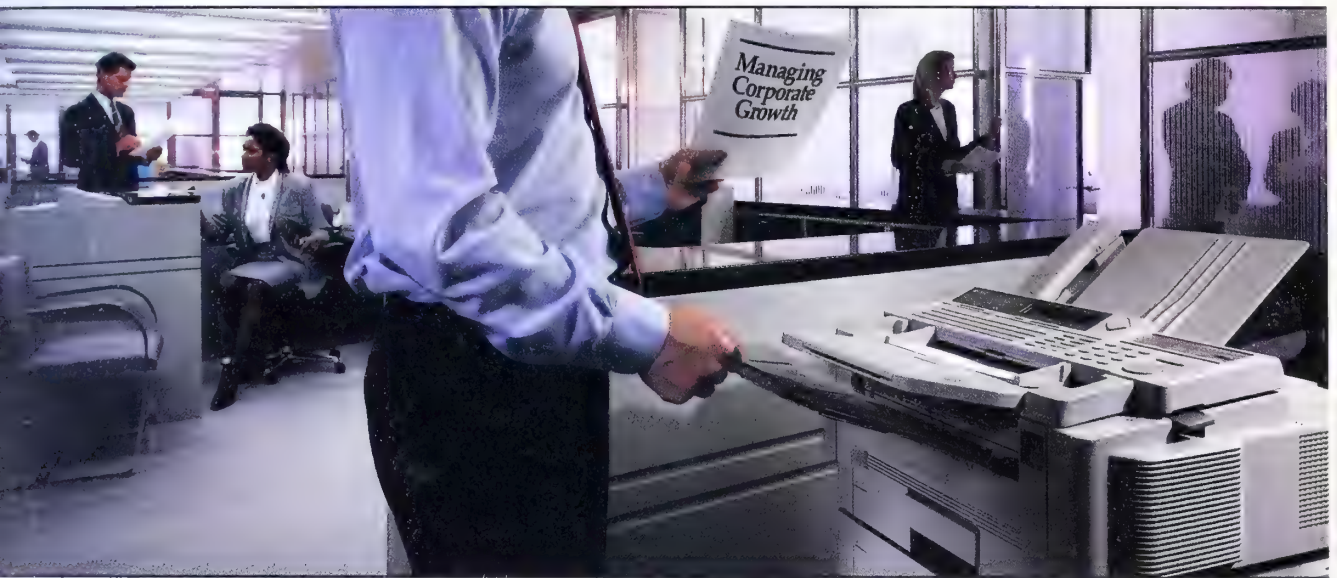
Insurer American International Group Inc. and a consortium of Western and Russian partners are opening Moscow's first joint-venture investment bank. Engineered by AIG Chairman Maurice R. Greenberg and approved by Russian President Boris N. Yeltsin on Oct. 26, the partnership includes the nation's gas industry, military pension fund, and several energy-producing regions. Western backers include broker Smith Barney, Chemical Bank, and the British-American invest-

ment banking partnership of J. Rothschild, Wolfensohn. The bank will target Russia's ailing defense and energy industries as prime candidates for restructuring and foreign capital.

CZECHOSLOVAKIA

Slovak officials started pushing eastern Europe to the brink of a political crisis this week when they began diverting water from the Danube to the controversial Gabčíkovo Dam. The 15-year-old project is strongly opposed by Hungary, which threatens economic reprisals, and it could also strain relations with the Czech republic. Slovakia is throwing its political and economic weight behind Hungary.

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Tight time for airline mean a real slog for manufacturers

Boeing. Around the world, the commercial aircraft industry is in a waning tail race. Engine maker Pratt & Whitney is laying off workers. Leasing giant AAR dumps plane orders that it can't afford. McDonnell Douglas Corp. may be squeezed out of the jetliner business. By now, things were supposed to be

"We're losing our shirts—and so is everyone else," says Executive Vice-President John W. Bland of American Airlines. "We're not alone. We're all in this together."

A report in the *Washington Post* last week said that the Japanese had been ordered to build 100,000 aircraft in 1944. The report said that the Japanese had been ordered to build 100,000 aircraft in 1944. The report said that the Japanese had been ordered to build 100,000 aircraft in 1944. The report said that the Japanese had been ordered to build 100,000 aircraft in 1944.

A FALLOFF IN AIRCRAFT ORDERS.

1 PLANE = 100 PLACES ORDERED PER YEAR.

Year	Number of Aircraft (Planes)
1990	100
1991	25
1992	15

COMMERCIAL AIRCRAFT MADE BY BOEING, AIRBUS, DOUGLAS, FOKKER, AIRCRAFT

planes in the late 1980s. At the height of the fever, in 1989, airlines ordered 1,588 planes. So now, carriers are scrambling to reverse their earlier folly by canceling or pushing orders as far to the future as they can.

The three largest U.S. airlines have already announced cuts in capital spending for the next few years totaling \$15 billion. The carriers won't rule out additional cuts. But even if passenger travel picks up, or if airlines succeed in raising fares, that won't automatically help manufacturers. Thomas J. Roeck Jr., Delta Air Lines Inc.'s chief financial officer, says Delta plans to "age the fleet" to improve its balance sheet. Between 1992 and 2001, the average age of a Delta plane will jump from 9.2 to 10.8 years. And "hush-kits" are now competing with plane orders. Just a year ago, says Roeck, Delta intended to buy new, so-called Stage 3 aircraft to meet federal noise regulations. Now, Delta plans to outfit Stage 2 aircraft with hush-kits—which bring older planes to regulation standards for just \$3 million, vs. \$40 million or so for a replacement plane. American and United Airlines Inc. say they're looking at hush-kits, too.

ROADER CUTS. Boeing will cut 8,000 jobs by yearend, roughly half of them because of production cuts on the 737 and 757. Airbus has slowed its own assembly lines three times in 1992 and postponed the launch of its new A319. Douglas is expected to make production cuts of 40% on its MD-11. Engine maker Pratt recently announced planned layoffs of 4,800. But Salomon Brothers Inc. analyst George Shapiro says manufacturers are still "too optimistic" and predicts further slowdowns. Although cuts so far have affected narrowbody planes, both Shapiro and D'Yvoire say weakness in Europe and Japan could force manufacturers to make fewer of the expensive widebodies, too—particularly Boeing 767s and possibly 747s.

The excess capacity is hitting players

DOUGLAS IS STRUGGLING FOR ALTITUDE

The list of once-proud builders of commercial airliners that have faded from the scene is long, and the names are venerable: Lockheed, Dassault, Convair, North American, and Republic. Now, as the worst aircraft-sales slump in at least a decade drags on, many people are asking: Is Douglas Aircraft Co. poised to join that roster?

Decades ago, the aerospace giant sold nearly half the world's civilian aircraft. But failure to expand its line sufficiently has taken a toll. Today, Douglas' share of the commercial airliner backlog has shrunk to a scant 12%, making it a distant third globally behind Boeing Co. and Airbus Industrie. The work force at Douglas has been slashed by a third since mid-1990 to cut costs. Recently, sales of its new MD-11 widebody have stalled. And a much-needed \$2 billion investment in Douglas by Taiwan Aerospace appears to have crash-landed.

Many observers think the crunch could push McDonnell Douglas Corp. out of making commercial airliners. "I certainly don't worry about Airbus or Boeing," says John C. Pope, president of United Airlines, a big Boeing customer. But "you have to wonder what will happen to McDonnell Douglas." Bertrand d'Yvoire, president of France's Consultair, says it's "hard to believe Douglas will survive."

DEFENDERS. Deliveries have tumbled. In the third quarter, the number of planes delivered fell 40%, driving earnings from commercial aircraft down 43%, to \$52 million. And orders are weak. First Boston Corp. analyst Peter L. Aseritis notes that in the first half of 1992, Douglas booked net new orders of only one plane—compared with 111 for Boeing and more than 50 for Airbus. General Dynamics Corp.'s Convair Div., which supplies the fuselages for the MD-11, last month announced it will cut its work force by 40% to match looming production-rate cuts by Douglas. "McDonnell is buying time by low-

ering the production rate and stretching out its backlog," says Aseritis, "but you can't get one new order every six months and stay in business."

To be sure, Douglas has defenders. Thomas J. Roeck Jr., chief financial officer at Delta Air Lines, a major Douglas customer, argues that despite a liquidity crunch in late 1990, McDonnell Douglas assured the future of its commercial-aircraft business when it successfully launched the MD-11 that Oc-

tober. "In my mind, the issue now is how big the company will be," says Roeck, "not whether the company will be in the business."

John F. McDonnell, chief executive of parent McDonnell Douglas, argues that Douglas survived an even worse crunch in the early '80s. It maintained production then by "renting" airplanes to American Airlines Inc. on short-term leases. "This is a cyclical business, and so far it's not as bad as it was the last

time around," McDonnell says. "It hasn't affected our long-term support for Douglas Aircraft."

But optimism is becoming difficult. McDonnell's defense business has solid prospects, thanks to President Bush's decision to allow the sale of McDonnell F-15s to Saudi Arabia and Bill Clinton's call for a more mobile U.S. military. But McDonnell's stock has nose-dived 40% since January—in part because of concerns that costly new spending on commercial planes could strangle the financially strapped parent.

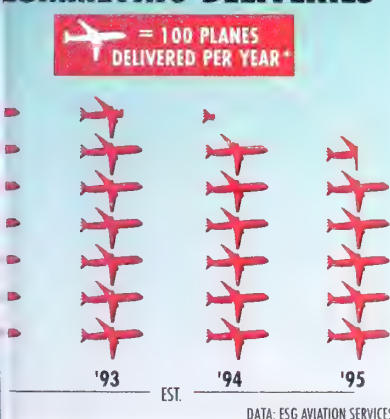
Few observers believe an investment by Taiwan Aerospace can be revived, especially after TaiAero's recent plane-building deal with British Aerospace PLC. And the Taiwanese money was critical to funding Douglas' planned MD-12 double-decker widebody. John McDonnell is trying to put the best face on a bad situation. "The pressure is off," he says. "With the MD-12 not being imminent, the need [for cash] is not imminent." Not the most persuasive argument for a promising future.

By James E. Ellis in Chicago



SALES OF THE MD-11 WIDEBODY, LAUNCHED IN 1990, HAVE STALLED

...WILL MEAN PLUMMETING DELIVERIES





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Industries

across the board. Next to Douglas, Irish leasing giant GPA Group may be the most severely affected. Last June, with \$12 billion in aircraft orders on the books, \$5 billion of that scheduled for delivery within two years, high-flying GPA desperately needed cash. But when the company attempted a \$750 million initial public offering, investors in the U.S. and Britain gave an embarrassing thumbs-down. GPA was swimming against the tide: The market for IPOs had gone bust, and the airline industry was severely depressed. But institutional investors especially shied away, believing GPA was dangerously exposed to credit risks. The bulk of its customers are start-up airlines in developing countries. Now, it is battling rumors that it will need bankruptcy protection to restructure its purchasing obligations. GPA Vice-Chairman James M. King calls such stories "a complete load of rubbish." Most experts concede the idea is far-fetched, since big lenders have too much at stake to allow a bankruptcy. GPA already has unloaded \$5 billion of its \$12 billion in purchase obligations. But the company remains embroiled in a nail-biting series of negotiations with aircraft manufacturers, banks, and shareholders. Even with a brighter long-term future, GPA will emerge greatly reduced in size and without the flashy 25% annual earnings growth of recent years.

SOME ARE SAFE. Fokker may emerge in a different form, too. The worsening global airline situation has pushed the Dutch aircraft maker into a cash bind. Fokker put off a needed share offering last spring because it thought a deal for Deutsche Aerospace to purchase 51% of its shares was imminent. Fokker claims now that the deal is in the final stages of negotiation, but at a price roughly \$130 million lower than estimated last July. If the deal doesn't happen, Fokker may have to tap the Dutch government for a loan.

For Boeing and Airbus, the pain is less severe. Should Douglas quit making jets, both of them will gain significant market share. Moreover, both manufacturers' backlogs are buoyed by a continued influx of non-U.S. orders. "An awful lot of people in this country think the world stops at each ocean," says Jack E. Howard, Boeing's director of market research. "A few years ago, we figured

out that wasn't true." In 1970, he says, 70% of Boeing's backlog was with U.S. customers. This year, however, more than 60% of new airplane orders came from overseas. He notes that Boeing is enjoying strong growth in the Asia-Pacific region. Japan Air Lines Co., despite the tough times, hasn't deferred any orders. And orders from Chinese and Southeast Asian carriers are pouring in. Last May, Malaysia Airlines ordered 17 737s.

Once the current slump ends, experts see a return to normal growth and big business in replacing widebodies. With its A340 and A330 reaching the skies in

1993, Airbus is well positioned for that. Orders for Boeing's 777, which will roll off the assembly line by 1995, are doing reasonably well. But Boeing is still worried. Although it maintains a solid 50% to 60% market share and is the lowest-cost producer and the only profitable maker in the business, the behemoth is turning itself inside out to prepare for the future. Last year, close to 100 of its top executives flew to Japan on study missions, and this year

the company is quietly forcing all managers to undergo an intensive six-day course in "world-class competitiveness."

PAIRING OFF. That sense of urgency is no doubt reverberating throughout the industry. Even after things pick up, manufacturers face new and awesome challenges in the years beyond. Jim Beyer, editor of *Avmark Newsletter*, predicts that several years down the road, "the Russians might come in as No. 3." And as Asians account for an increasing percentage of world aircraft purchases, countries in that region won't remain content just to buy.

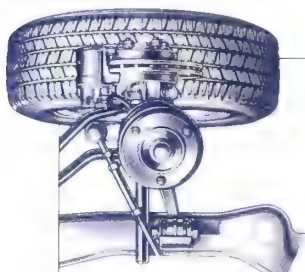
Asian producers will seek to work increasingly with U.S. and European aircraft makers as partners. But some industry players, including Boeing, fear the day may not be far off when companies in Japan, Taiwan, Korea, and elsewhere could band together in a new pan-Asian challenger similar to the European, government-backed Airbus consortium. The world's airlines wouldn't mind the extra competition at all. But it could spell a new round of tough times for an industry that already has its share of headaches.

By Andrea Rothman in New York, Stewart Toy in Paris, and Dori Jones Yang in Seattle, with bureau reports



**EVEN THE
INDUSTRY GIANT,
BOEING, IS
TURNING ITSELF
INSIDE OUT**

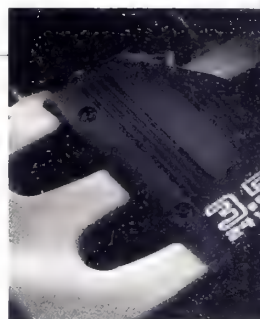
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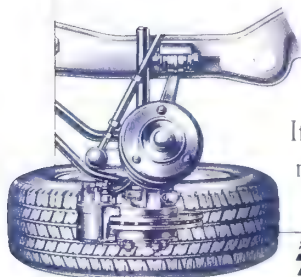


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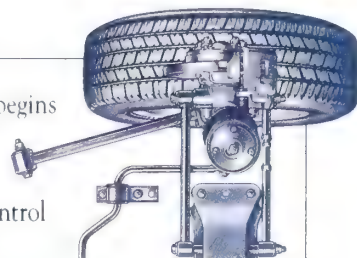


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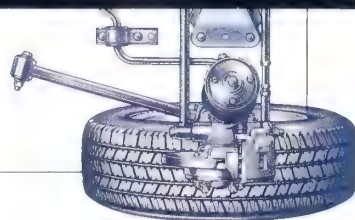
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REAL MEN BUY PAPER TOWELS, TOO

More ads aim at the guys who do the household shopping

Mike LaFavore sees himself as a pretty liberated guy. Both he and his wife work long hours—his executive editor of *Men's Health* magazine, and she's a free-lance writer—so they split household and child-rearing chores. Grocery shopping? LaFavore, 40, considers himself a master. "I'm certainly not embarrassed to be seen shopping," he says. One thing he adds, though: "I would not be caught dead with coupons."

Meet New Age Man and his shopping cart. Marketers are trying harder than ever to entice him to buy products that have been traditionally purchased by women. LaFavore knows about this firsthand. The current issue of *Men's Health*, a 650,000-circulation monthly, sports full-page ads for Dannon yogurt, Advil pain medicine, Colgate toothbrushes, Kraft salad dressing, and NutraSweet. Other marketers such as Kmart, Campbell Soup, Procter & Gamble, and Johnson & Johnson have run ads showing men cuddling babies, shopping shrewdly, and dispensing peanut butter.

UNITED EGOS? Behind such efforts is the brute force of statistics. With 70% of men holding jobs outside the home, millions of men are doing chores their fathers would never have dreamed of. According to marketing consultant Allen Cusker, president of Canaan Parish Group, in New Canaan, Conn., men bought 25% of the groceries in the U.S. last year, up from 17% five years ago. Nielsen Marketing Research says males buy billions of dollars' worth of such home items as detergent and baby food (ble)—products whose markets have recently been growing sluggishly, if at all. Small wonder, then, that marketers

are taking aim at men after battling for decades to influence women's purchases.

Marketers are treading carefully, though. They're wary of denting male egos forged in the tradition that the only things men should buy are booze,



KMART TRIES TO PUT MALES AT EASE BY CASTING COMMERCIALS WITH AN ACTOR WHO LOOKS LIKE A MAN'S MAN. J&J IS CAREFUL TO SHOW WEDDING RINGS AND BRAWNY FOREARMS IN

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cars, and electronics. Peter Hirsch, creative director of Kmart's ad agency, Callet, Hirsch & Ferrell Inc., has seen men thrash out this shopping angst in focus groups. "Men sit there with their football shirts and their baseball hats and say: 'I do the shopping and take the laundry down,'" he says. "Then they look around, because they don't want to be the only bozo doing the laundry."

To put embarrassed male shoppers at ease, Hirsch has devised hundreds of TV spots for the \$35 billion retailer. Many show men shopping at Kmart for such unmacho items as baby shampoo and children's books. The key is casting a manly type. Take the spot of a dad tossing baby shampoo into the cart while talking to his infant. The actor, Mike Starr, had a more violent role in the movie *Goodfellas*: He helps orchestrate a heist before showing up dead in a garbage truck. Kmart, whose sales increased 8% last year, is so pleased with the campaign that it plans new spots with similar themes.

SPORTS NUTS. Campbell Soup Co. has also tried to appeal to maleness since Anthony J. Adams, the company's research director, found that 80% of all men do some major food shopping every month. So the marketer has deliberately been using more men in ads and buying pages for Chunky Soup in such male-oriented magazines as *Sports Illustrated*, *Field & Stream*, and *Rolling Stone*.

Adams also wants Campbell's TV ads to reach men as well as the traditional core audience of women. In a spot for Campbell's Prego spaghetti sauce, Prego drips more slowly than rival Ragù through cheesecloths into glass bowls. How does that work for guys? It's competitive, for one. Says Adams: "Comparison advertising strikes a familiar chord with men, because they're big sports nuts." And the idea of rib-sticking satisfaction is also supposed to grab men. Prego has been holding on to its 26% market share, while Ragù's is down.

Other ads emphasize the nurturing side of New Man. In a current commercial by Grey Advertising Inc. for Procter & Gamble Co.'s Jif peanut butter, a mother and two fathers sit in a playground with their children. "Funny. All you guys used to talk about was sports and cars," muses the mother. "Yup," says

LOOK WHO'S PUSHING THE GROCERY CART

	Percentage bought by men	1991 men's purchases*
FROZEN FOODS	32%	\$1,597
DETERGENT	27	1,102
SOUP	30	655
COLD REMEDIES	30	486
BABY FOOD	24	390
BAKING MIXES	21	259
BOTTLED WATER	40	155

*Millions

DATA: NIELSEN HOMESCAN

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one father. "Now, it's playground and peanut butter." One little girl's mother is nowhere to be seen—a big change for P&G, which intoned for years that "Choosy mothers choose Jif."

Plenty of companies, though, don't much like to discuss any efforts to reach male shoppers. J&J's ads for Baby Diaper Rash Relief show the hairy hand of a man, wedding ring in view, lifting a baby. Seems like a clear bid for the paternal vote. But J&J will say only: "This ad demonstrates a commitment to understanding the changing lifestyles of parents." Scott Paper Co. won't identify the audience targeted in ads for Baby Fresh wipes, which depict a baby smiling at a man's partially hidden face.

Why the reticence? Some cynics say the pitches are really women's ads in politically correct clothing. The logic: Women find reassurance in ads where

Some marketers say
women also respond to
the ads—whether they
reflect reality or not

men are enthusiastically shouldering their share of family chores—whether or not they actually are. "The presence of fathers in ads is very popular among mothers," says Dan Ambrose, publisher of *Child* magazine.

Some marketers do say ads with men help them reach women. In a current commercial for Upjohn Co.'s Motrin pain reliever, a burly father sits down to a make-believe tea party with his tow-headed daughter, while an announcer says a bad headache almost forced this dad to forgo teatime. The message seems straightforward: Motrin is strong enough to relieve a man's headache. Nope. "It really isn't an effort to target men," says Bill Sever, director of analgesic brands in Upjohn's Consumer Products Div. Sever thinks women will reason that a painkiller that can help a big man will work for them, too.

"Pshaw. That's not what I play back when I see the commercial," says consultant McCusker. "This ad shows the men are now doing things differently and suffer from the same pains women do." Still, McCusker agrees that subtlety pays when selling such products to men. For starters, there's the risk of alienating women. Or men. "Men still do have this macho complex," he says. Once again, sexual politics makes Presidential politics look like child's play.

By Laura Zinn in New York

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Decider, decider, decider.

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1992 BYTE, a McGraw-Hill publication. For a presentation of the March 1992 IntelliQuest study, call (603) 921-2611.



GETTING SERIOUS ABOUT SEXUAL HARASSMENT

More companies are addressing it, but there's still a long way to go

Co-pilot Kathy Gillies had endured plenty from her male colleagues in the three years she had worked for United Airlines Inc.: propositions, pornographic pictures in the cockpit, discussions of masturbation. But this summer, after she charged that she was attacked by her flight captain in a hotel room, she filed a sexual harassment claim with the airline, requesting not to be assigned with him again. United investigated, but concluded "... we have been unable to establish that what you alleged to have occurred between you and Captain X actually took place." So United refused to guarantee the two would not be scheduled together.

That was the final straw for Gillies, one of 436 female pilots out of 8,400 at United. On Oct. 13, she filed suit in Los Angeles Superior Court against the airline and several employees. UAL Inc. hasn't responded to the charges of sexual harassment and discrimination, saying only: "We treat any such claims as serious."

LAME STEPS. Kathy Gillies is a pilot in Los Angeles, but she could be an attorney in Miami, a bus mechanic in Louisville, or a former city council aide in New York City, to name a few instigators of sexual-harassment suits or charges that have surfaced with increasing regularity. A year after the Anita Hill-Clarence Thomas hearings, the Equal Employment Opportunity Commission reports a 50% jump in harassment claims (chart, page 82). Management consultants, labor lawyers, and pri-

vate advocacy groups, such as 9 to 5 and the NOW Legal Defense & Education Fund, report that calls for information from companies and individuals have tripled. A recent survey of 607 women conducted by the National Association for Female Executives (NAFE) finds that 60% say they have experienced sexual harassment—up 7 percentage points from a poll taken right after the hearings.

More than half the pollees said their companies still haven't addressed the problem. When they do, they all too of-

ten try a token approach—posting a policy or handing out a list of dos and don'ts. "It's encouraging that there's lots of talk about harassment still," says Helen Neuborne, executive director of the NOW Legal Defense & Education Fund. "But has there been real change in corporate behavior? No."

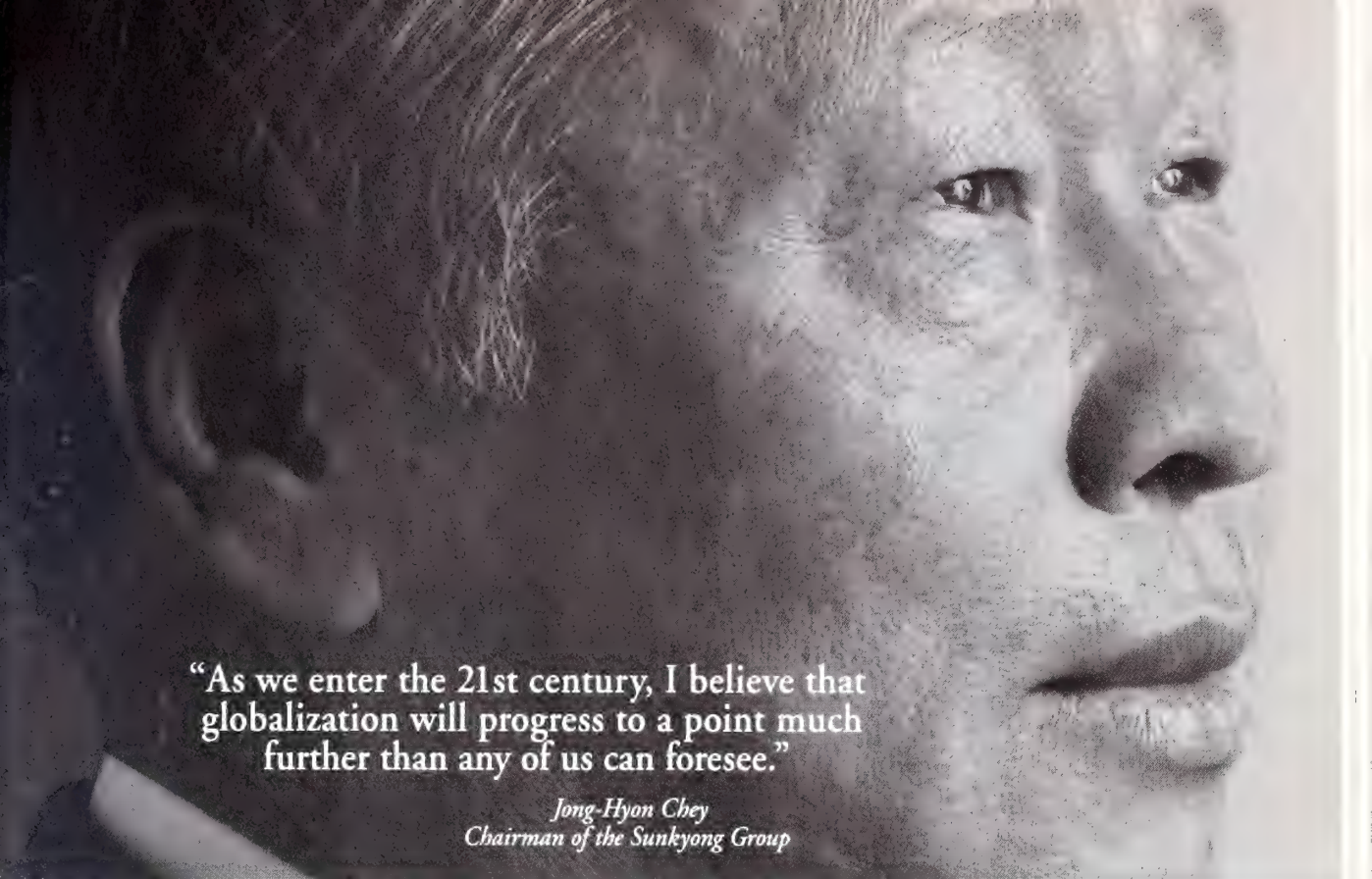
Still, the hearings did induce some employers to take sexual harassment seriously. In particular, it introduced men to "hostile workplace" harassment—corporate atmosphere or behavior that would offend a reasonable woman—which is far more common than the explicit-threat type. Companies now have a financial incentive as well: The passage of the Civil Rights Act of 1991 means victims of sexual harassment can receive punitive and compensatory damages. Says Susan M. Benton-Powers, a partner at Chicago law firm Sonnenschein, Nath & Rosenthal: "The hearings made them concerned about the issue. The act raised the concern of the bottom line."

Figuring it costs less to invest in prevention than in litigation, many companies have established training programs or revised their current ones. Seattle management consultant Susan L. Webb, author of *Step Forward: Sexual Harassment in the Workplace*, notes that at one time, companies routinely ordered 20 to 50 copies of a training video or manual on dealing with sexual harassment. Now, it's more like 2,000 to 3,000—indicating a desire to educate the entire work force, not just senior managers. Miami-based Knight-Ridder Inc. now requires all employees to take a two-hour workshop on sexual harassment issues. In the past 6 months, 6,000 out of 20,700 staffers have attended. Responding to requests from front-line managers, Conoco Inc. in Houston has also intensified its training, augmenting a two-year-old program with a workshop specifically devoted to hostile-workplace harassment.

Other companies,



AFTER ONE COMPANY'S TRAINING CLASS, MEN TOLD FEMALE CO-WORKERS: 'FROM NOW ON, WE'LL CALL YOU "STUPID JERK" INSTEAD OF "STUPID BITCH"'



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reaching for a broader audience, have customized their policies, tailoring language and examples of offensive behavior for the warehouse and executive office. Instead of a lecture, training sessions are now more interactive, involving role-playing. And some companies have employees do the teaching. Mining company FMC Wyoming Corp. in Green River, Wyo., hired a consultant to teach staffers to train its workforce of 1,200. "This way, it's not a commandment coming down from management but something you can relate to with your peers," says Judy Boyce, FMC training coordinator. With consultants charging up to \$2,000 a day, internal trainers can also save the company a bundle.

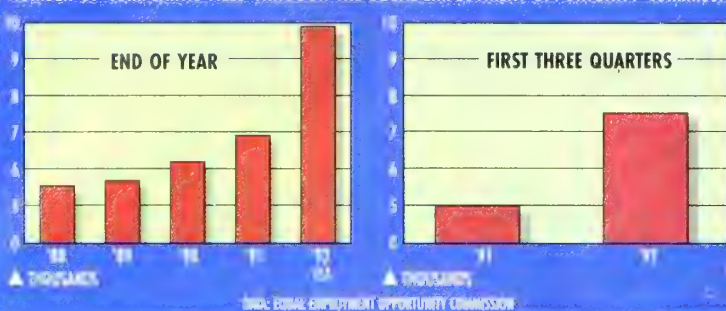
Unfortunately, the organizations that have responded the most in the past year tend to be the ones that are already enlightened. The hearings did send many first-timers to consultants, but only to request unrealistically short programs—gender awareness in an hour. Wider Opportunities for Women, a national employment group, has received five times the number of calls it got in 1991. But when companies hear about wow's hours-long, systemic training program, about 70% of them back off.

Sometimes, the training just doesn't take. Ellen Bravo, national director of 9 to 5, recounts a company where, after leaving a training seminar, men reported to female co-workers: "From now on, we'll call you 'stupid jerk' instead of 'stupid bitch.'" And at a Colorado oil company, several male employees played porn videos in the company cafeteria just weeks after finishing a training program. "When training doesn't work," says Susan Webb, "the problems are usually not around the training but about management's stance and its handling of complaints."

NEW CHANNELS. Many companies are re-evaluating their complaint systems. In the NAFE survey, 46% of the women whose companies had taken steps since the hearings said their employers had established a grievance procedure. Where once they advised a victim to go to her boss, many corporate policies now call for an independent person within the company (usually female) to investigate complaints. Other companies establish both formal and informal channels. Palmer & Dodge, a 360-employee law firm in Boston, believes it's the first in

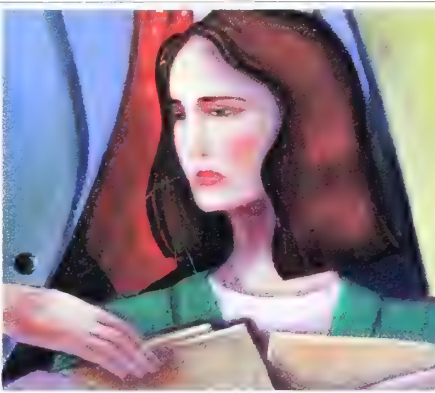
HARASSMENT CHARGES ...ESPECIALLY SINCE THE HILL-THOMAS HEARINGS

NUMBER OF COMPLAINTS FILED THROUGH THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION



the country to establish an ombudsman to counsel victims privately. It also lets employees file a complaint through an impartial mediator.

Northern States Power Co. in Minneapolis has strong carrot-and-stick approaches. Even before the hearings, it was developing a thorough investigation policy. Alleged victims could file complaints through their supervisors, the human resources department, or a panel of peers. Results of investigations—with names deleted—are available to any employee and published annually. This past year, after a 15% jump in requests, sexual harassment workshops were offered. One plant manager credited the training with helping him deal quietly but effectively with a pornographic cartoon found on the property. All 7,000 employees, 27% of whom are women, received a brochure and a letter from CEO James J. Howard reiterating the company's "zero tolerance for sexual harassment." Says Hazel R. O'Leary, executive vice-president for corporate affairs: "This is a business issue. It doesn't have to do with law or morality but about having a productive work force."



**'THIS IS A BUSINESS ISSUE
...ABOUT HAVING A
PRODUCTIVE WORK FORCE'**

In other cases, management's efforts have sparked tension. In the wake of diligent anti-harassment efforts, UNUM Life Insurance Co. in Portland, Me., has had an increase in complaints and subtle changes in the work atmosphere. "With even so much as a simple compliment, you have to be careful in telling people they look nice," says Administrative Assistant Deborah J. Wir-

ters. Fredda Klein, a management consultant in Cambridge, Mass., has seen more substantial backlash: companies forbidding office romances, or male executives declaring they won't put a woman on a team that travels out of town or ask a female subordinate to join them for a business dinner.

WRONG MESSAGE. Klein worries that for all the we-won't-tolerate-this talk, "companies still have a tendency to treat cases on the relative value of each part to the corporation rather than the seriousness of the offense." And even when the company takes punitive action, making it stick can be difficult.

Witness what happened to Chrysler Corp. In 1989, it fired an employee who, while talking on the phone, walked behind a female worker, squeezed her breasts, then announced into the receiver: "Yup, they're real." The fired employee's union, the Allied Industrial Workers of America, filed a grievance saying he hadn't been given fair warning. An arbitrator agreed, ordering the employee reinstated with a month's suspension without pay—a decision upheld by two appellate courts. The U.S. Supreme Court refused to hear the case. Although the matter was decided on technical due-process issues, the case can send the wrong message, worries Chicago employment attorney Lawrence R. Levin: "People will think harassment just isn't that important."

Much of the confusion may be a necessary step on the road to dealing effectively with sexual harassment. Even heightened sensitivity is all that's been accomplished so far, that's no small thing. But companies can navigate the bumpy patch if they reach beyond quick-fix remedies to systematically educate and keep on educating their entire workforce. Like crime, sexual harassment may be impossible to eradicate. The ideal is not tolerating it when it happens.

By Troy Segal in New York, with Ken Kelly in Chicago, Alisa Solomon in New York, and bureau reports



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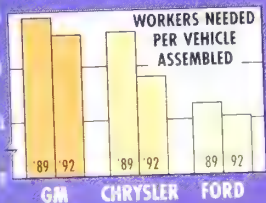
CRISIS AT GM

TURMOIL AT THE TOP REFLECTS THE DEPTH OF ITS TROUBLES

As passings-of-the-torch go, it was messy. Chairman Robert C. Stempel, a deliberative engineer who is likely to be the last of General Motors Corp.'s old guard to lead the auto giant, resigned early on Oct. 26 under pressure from the company's outside directors, who wanted him to move faster to mend the ailing company. For a few days, Stempel had tried vainly to quell speculation leaking from board sources that his job was in jeopardy. But as rumors and uncertainty paralyzed GM, Stempel tendered his resignation—to "end the chaos," he said.

If that was the goal, it didn't work. For a riveting moment after Stempel's resignation, GM's myriad problems stood more starkly revealed than ever before. Although Stempel agreed to stay on until a replacement

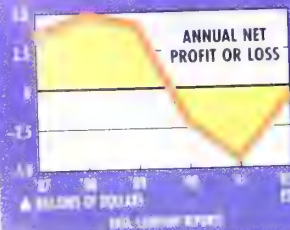
GM IS WAY BEHIND IN PRODUCTIVITY...



could be named, in reality, the world's largest industrial company was leaderless, its board in revolt, its management in disarray. It was as if, suddenly, years of disastrous results, market-share losses, misguided investments, and false starts at renewal could no longer be papered over by management denial. After a first move last April, when it replaced Stempel's hand-picked No. 2, GM's board had taken the ultimate step by forcing the chieftain himself out of office. And the message was finally clear to even the most irrepressible Pollyannas: GM's troubles run so deep that it must recreate itself or tear its management apart in the effort.

Both Chrysler Corp. and Ford Motor Co. reached similar moments of truth in the early 1980s. Chrysler flirted with bankruptcy and needed a government bailout, and Ford had to bring in quality guru W. Edwards Deming to help it revamp itself from top

...IT KEEPS SPEWING RED INK...





CHAIRMAN STEMPEL, PRESIDENT SMITH, AND DIRECTOR SMALE



HIGH ANXIETY: THE BOARD'S HOME BASE IS THE GM BUILDING IN NEW YORK

to bottom. Both companies, after missteps, managed to find the strength and resourcefulness to turn themselves around. They did it so well that GM's crosstown rivals have been gaining market share from Japanese carmakers all year—in sharp contrast with GM. Indeed, while the parallels are inexact, GM can take heart from Chrysler's comeback (page 88): As recently as a year-and-a-half ago, it seemed as badly crippled as GM does today.

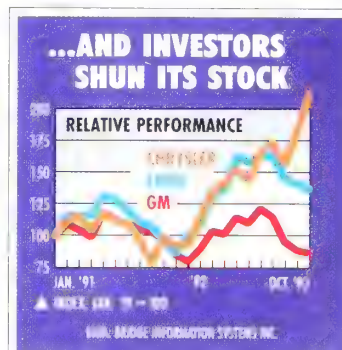
Now, as GM's new management team takes form behind the scenes, the question is whether it can find the gumption to do what Chrysler did. The driving force behind Stempel's ouster is John G. Smale, 65, the former chairman of Procter & Gamble Co. who heads GM's executive committee. He is widely expected to step in as temporary chairman, perhaps at GM's Nov. 2 board meeting in New York. Even if another executive takes the chairman's slot, the cool, aloof Smale will play a key role in setting GM's tone for the next few years.

It will be anything but a cozy place to work. Almost immediately, Smale promised to announce "our management changes as soon as possible," a message many GMers translated as: More heads will roll. Former President Lloyd Reuss and Executive Vice-President F. Alan Smith are widely believed to be headed for the door.

'STRAIGHT SHOOTER.' More than anything, though, Stempel's exit strengthens the mandate of GM's hard-charging new president, John F. "Jack" Smith Jr., 54. The board promoted Smith last spring to accelerate GM's restructuring. Now, many GM watchers expect him to be named chief executive, although the board may yet choose someone else from inside or outside GM. In the turmoil following Stempel's resignation, all eyes were on Smith as the key figure holding things together. Stephen P. Yokich, the United Auto Workers' fiery top GM liaison, growls about Smale: "I don't know him, and I don't have the slightest idea what he'll do." But he adds that he considers Smith "a straight shooter" whom the union can work with. Adds a top auto analyst: "If Jack Smith quit, GM's stock would go to zero. He's the only one at GM who has credibility with Wall Street."

Smith has already moved fast to address some of GM's worst problems. He has cut white-collar payrolls, frozen salaries, reduced health-care benefits, and put some noncore businesses up for sale. Meanwhile, a top Smith lieutenant, purchasing czar J. Ignacio Lopez de Arriortua, has been squeezing suppliers for price cuts to hack away at GM's bloated costs. While major suppliers are resisting Lopez' demands, some analysts say the measures are boosting GM's bottom line. Despite still-sluggish auto sales, analysts expect GM to pare the losses in its North American auto operation from an astonishing \$7 billion last year to about \$4 billion this year. Overall, GM is expected to lose about \$900 million this year, vs. \$4.5 billion last year. Still, those results are hardly rosy, and financial pressures on GM continue to mount. For instance, lower investment returns will force GM to increase its unfunded pension liabilities by as much as \$1.9 billion this year, to a total of some \$10 billion. Analysts say GM may have to cut its dividend to conserve cash. Meanwhile, rating agencies are threatening to downgrade the company's debt if it doesn't improve fast.

Worst of all, the cash crunch is draining money badly needed to revamp GM's cars and trucks. Chevrolet, GM's biggest division, has been losing market share as it struggles to sell an



aging lineup that includes such weak models as the Caprice and the fast-slipping Cavalier, which hasn't been revamped in 11 years. Oldsmobile is also in decline. Longer term, divisions such as Olds hope to gain by modeling themselves after Saturn Corp., GM's successful small-car unit. Meanwhile, Saturn needs \$1 billion for more plant capacity.

A REAL DENT. The upshot is that Smith must speed up his efforts now—or he may face the same board restiveness that Stempel did. His first task has to be to focus the distracted company back on its business. Turmoil of the kind raised by Stempel's ouster hurts, notes Chrysler Chairman Lee A. Iacocca. "It's not just gossip at the water cooler. [Employees] get despondent. It's a hell of a way to motivate."

After that, contends Kim S. Cameron, a University of Michigan professor who is studying GM's downsizing efforts, Smith must forge "a fundamental cultural change" in GM's middle-management ranks. Smith may not be going fast enough in breaking down the clubby GM traditions that allow non-performing middle managers to go unaccountable, contends another consultant who works with GM: "He has not moved aside enough of the deadwood, the people who are resisting change." Analysts also believe that to make a real dent in GM's stultifying bureaucracy, Smith will eventually have to lay off twice the 20,000 white-collar employees that Stempel had planned to ax.

Stempel got in trouble for dawdling on such moves. The board's revolt was hatched by a core group of 4 or 5 of GM's 11 outside directors. They conferred often by telephone and dined together on the Sunday nights before GM's board meetings on the first Monday of the month, says a source close to the board. "That's where the palace-coup discussions took place," he says. As GM's troubles deepened, the outside directors concluded that Stempel was too reluctant to ax employees. He resisted board pressure to demote Reuss in April and wanted to thin white-collar ranks by attrition, buyouts, and early retirements.

The dissident directors are no strangers to management challenges and boardroom intrigues of their own. In addition to Smale, the source says the

group includes J. Willard Marriott Jr., chairman of Marriott Corp., which is itself in the throes of its second major restructuring in two years, and former CBS Chairman Thomas H. Wyman, who was himself ignominiously forced out in a board coup. Also included is Dennis Weatherstone, the mild-mannered, British-born chairman of J. P. Morgan & Co., and Edmund T. Pratt Jr., former Pfizer Inc. chairman. None of the directors was willing to comment.

Smith's steepest challenge in trying to move GM into higher gear is the balancing act he must play with the UAW. He's known for being good at jawboning unions. For instance, in Europe, where he preceded incoming Chrysler Chairman Robert J. Eaton as president of GM's operation, Smith negotiated around-the-clock production in Spain and Belgium without provoking strikes. But this

keep both the UAW and Wall Street happy. Analysts are expecting big savings from Lopez' efforts, and more outsourcing may be the only way to cut costs fast. Yet outsourcing was one of the main reasons for the series of recent UAW flare-ups that probably hastened Stempel's departure. A strike and a threatened walkout were settled only when the company agreed to save union jobs by doing more work internally. Warns retired UAW President Douglas Fraser: "If they get tough, so does the union."

Avoiding labor unrest is crucial if GM is to address another of its telling weaknesses: inefficient manufacturing. Even though GM operates under the same UAW contract as Ford and Chrysler, it uses more workers per car (chart, page 84), driving its labor cost per vehicle up to \$2,358, compared with just \$1,872 for

Chrysler and \$1,563 for Ford, according to a recent study by consultants Harbour & Associates Inc. Smith badly needs union cooperation in instituting work teams and more efficient production processes to catch up.

In the meantime, one of the key imponderables at GM is the role that Smale will play. His experience could be helpful. A shy man who let his lieutenants shine when he ran Procter & Gamble, Smale restructured P&G to speed up product development. He also forced P&G to focus more on meeting customers' needs. Under

Smale, the company formed sale teams to work more closely with retailers, a tactic GM could put to good use in working with its dealers. A recent survey of its members by the National Automobile Dealers Assn. found that of GM's seven divisions, only Saturn and Buick ranked above-average in listening to dealer input. Chevy was dead last.

Still, the responsibility for GM's turnaround will clearly fall on Smith's shoulders. And he knows he can't tarry. Notes Michael J. Mulvaney, an analyst at Moody's Investors Service Inc. "Changing the name on the letterhead isn't the ultimate solution to GM's problems." If Jack Smith can't do the job, his name won't be on that letterhead for long, either.

By Kathleen Kerwin and James L. Treece in Detroit, with Zachary Schiller in Cleveland and bureau reports

GM'S CHALLENGE

WHAT IT HAS TO FIX...

PRODUCTIVITY Because of inefficient manufacturing processes, its labor cost is \$2,358 per car, vs. \$1,872 for Chrysler and \$1,563 for Ford

BUREAUCRACY GM plans to cut 20,000 white-collar workers by the end of 1993, but twice that many may eventually have to go

PRODUCT DEVELOPMENT GM needs to speed new-model introductions and prune weak sellers

MARKETING It must invest in dealer training and adopt new selling techniques to match its rivals

...AND TO BUILD ON

SATURN GM must cut losses and invest up to \$1 billion to expand the compact-car division's capacity

OVERSEAS MOMENTUM GM is the low-cost producer in Europe, where it will rack up profits of about \$2 billion this year

MANAGEMENT DEPTH It must hold on to strong second-tier managers through the turmoil of reorganizing

NEW MODELS On top of a slew of new products over the last 18 months, GM is revamping the Blazer and other potentially hot-selling vehicles

DATA: BW, HARBOUR & ASSOCIATES INC.

time, he must win the union's cooperation without angering GM directors by appearing to be too conciliatory.

The union worries that Smith will be forced by board pressure to cut deeper than the 54,000 blue-collar layoffs Stempel had planned. That's largely because Lopez' cost-cutting in GM's parts operation could well involve plenty of outsourcing to nonunion suppliers.

Smith has placated union leaders so far by agreeing to offset such lost jobs by trying to make more parts internally where possible. He's also trying to assuage the UAW's fear that a \$4 billion jobs fund to pay laid-off workers may run out before GM's UAW contract is renegotiated next September. To help relieve pressure on the fund, Smith has agreed to try to negotiate an early-retirement plan for older workers.

Trouble is, Smith may not be able to

A GM POSTMORTEM: LESSONS FOR CORPORATE AMERICA

No one can relish watching the very public humiliation of Robert C. Stempel or the trauma forced departure has caused at General Motors Corp. Given the carmaker's massive and deep problems, though, something had to happen soon or later. So it's worth considering at lessons this messy episode offers the rest of Corporate America.

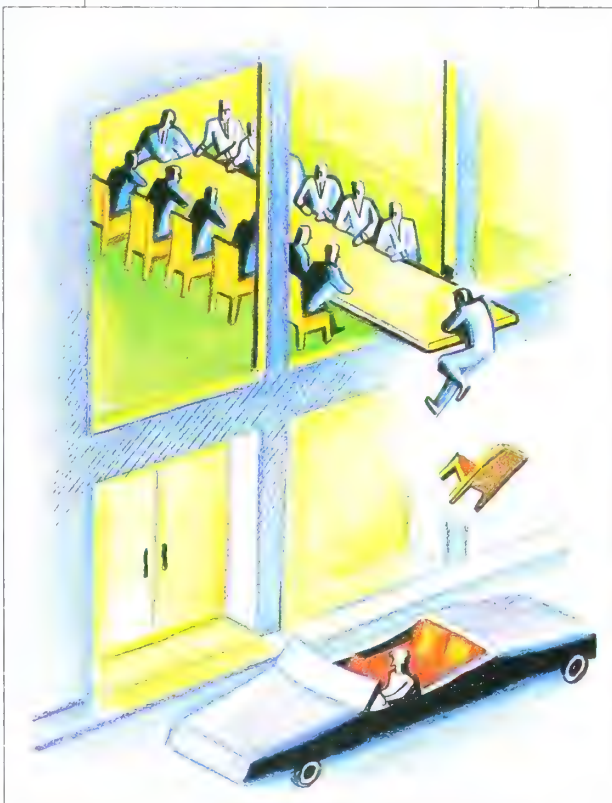
Management can't hide. That's the biggest implication. All through the 1980s, managers hustled to make their companies competitive and to boost shareholder value—lest they fall victim to foreign risks or to the raging takeover wave that was replacing poor managers. Not mighty GM. It dove along merrily, unresponsive to the changing car market. It never bothered with poison pills or other antitakeover devices, counting instead on its size for protection. But size means little to car buyers or editors: GM's red ink, along with the prospect of sinking credit ratings that would deny access to equity and commercial paper, eventually prompted independent directors to bring in new management.

Independent directors have succeeded takeovers as agents of change. Executives who were ousted because takeovers dwindled, thanks to their push for state antitakeover laws and their use of poison pills and other devices, must realize that they didn't shut off market forces. They merely distanced themselves from them. Says consultant Lilli A. Gordon of Gordon Group: "[GM] is a manifestation that the market for corporate control is not dead. It's in the hands of outside directors."

Boards must learn to move sooner and more effectively. Boardroom culture works against bold action, particularly at companies such as GM. Although directors can quietly seek a CEO's resignation at smaller companies, they tend to be meeker at huge institutions. Since these outsiders can't possibly know nitty-gritty details, they may be reluctant to challenge a CEO. At GM, directors took a half-measure last April—appointing director John G. Smale as executive-committee chair-

man and demoting some Stempel lieutenants—when a clean break with the past would have been better. Action then would have hastened GM's recovery and shortened Stempel's agony. As Gordon puts it, "they started surgery months ago and never sewed up the patient and finished it until now."

■ Directors need not fear expulsion from the "club." Worry about violating boardroom protocol is often cited as a main reason for rubber-stamp boards. After all, the public approbation of be-



ing selected as a director is one of the job's rewards. And the thought of disapproval from colleagues no doubt inhibited some GM directors last April, when board counsel Ira M. Millstein had urged directors to keep Stempel as CEO but make Smale chairman. Encouragingly, Smale—who by all accounts is the most active director—is hardly being drummed out of the club now. Quite the contrary. Many top executives believe he should have moved sooner. Directors everywhere should take courage.

■ Splitting the job of chairman and CEO, while no panacea, is the way to go at troubled companies. Each job carries distinct duties: The CEO runs the com-

pany, while the chairman runs the board. A GM chief executive has plenty to do in that slot for years to come. GM's board, meanwhile, must remain active and vigilant, and that task will be easier if a nonexecutive chairman controls its agenda and the information directors receive, suggests Nell Minow, a principal at Lens Inc., an investment firm. By dividing the two positions, GM would provide a working example to other companies of a structure that many activist shareholders advocate.

It would also help the carmaker regain credibility with its investors.

■ Shareholders, flush with victory at GM, will demand more of boards at poorly performing companies. Activist institutions have targeted GM for years, at first getting little satisfaction from managers. Its directors, however, finally got the message. Board members can expect more direct communication from unhappy shareholders urging them to make managers more accountable. That is a positive development. In fact, what happened at GM is a good example of how things should work: During the past two weeks, shareholders were barely heard from. "Our role is to energize the directors and let them get on with it," says Sarah A.B. Teslik, executive director of the Council of Institutional Investors. "We're not trying to do directors' jobs." Or management's.

■ The job of director is being redefined. For far too many board members, the post is an honorific: Eight or so times a year they fly out to meetings, have a nice dinner together, meet the next morning, have lunch, then go home—somehow never having the time to grapple with a corporation's real problems. No longer, not if investors have their way. New federal proxy rules, which give shareholders more power (BW—Nov. 2), should speed the process.

GM probably illustrates that "there's no unmessy way to fix massive inefficiency," says Gregg A. Jarrell, an economist at the University of Rochester. Even so, "it's a mess that's getting better," notes Minow—and one that might help prevent others.

SURGE AT CHRYSLER

ONCE AGAIN, IT'S ROARING BACK FROM OBLIVION

On Oct. 21, an ebullient Robert J. Eaton addressed a gaggle of reporters on the flight deck of the aircraft carrier U.S.S. Intrepid in New York Harbor. It was a flashy gimmick to kick off sales of Chrysler Corp.'s hot new family sedans. And Chrysler's vice-chairman and successor to retiring Chief Executive Lee A. Iacocca was upbeat in describing the new models. He was equally cocky when talking about Chrysler's future. "We know how to be successful even in a down market," he boasted.

Eaton can be forgiven a little grandstanding. With the rest of the U.S. auto industry trapped in a prolonged slump, Chrysler announced surprisingly strong third-quarter earnings of \$202 million, after a loss of \$82 million last year. Even better times may be coming in the months ahead. The new cars now hitting showrooms are the snazziest Chrysler has produced in decades.

That sure doesn't sound like the Chrysler of a year-and-a-half ago—the one that was on life support. In 1991, the No. 3 U.S. carmaker was losing money at a dizzying pace. Cash was so tight that Chrysler's accounting department sometimes had to scramble to meet the payroll. The company's market share was skidding, and with no merger partner in sight, industry experts figured Chrysler was dead meat.

NICE NEIGHBORHOOD. But led by the feisty Iacocca, Chrysler is roaring back from oblivion for the second time in a decade. Fueled by strong demand for minivans and the hot new Jeep Grand Cherokee, the company's share of the U.S. truck market has climbed to 22% this year, from 19% a year ago. Even better, Chrysler will earn about \$500 million in 1992, compared with a \$795 million loss last year (chart). And analysts

are looking for net earnings in the neighborhood of \$800 million in 1993. Much of the improvement stems from a cost-cutting crusade that lopped off \$4 billion in annual operating costs in just three years.

To be sure, Chrysler isn't entirely out of the woods. After years of reduced corporate contributions to its pension fund because of weak earnings, the company must now come up with a plan to fill a \$5 billion shortfall. Unfortunately, Chrysler has only \$3.3 billion in cash on hand, a relatively meager sum in the auto industry. And with its bond ratings languishing at junk levels, the company has been virtually shut out of the credit markets. Even more worrisome is the shaky economy. If skittish car buyers vanish again, all bets could be off.

Still, barring unforeseen calamities, Chrysler's revival looks increasingly unstoppable. The auto maker's revamped new-product program, which dedicates autonomous teams of engineers, marketers, and outside suppliers to each new vehicle, has quickly transformed Chrysler

into Detroit's most efficient designer of new vehicles. That capability has already spawned a slew of new products, including the slick LH sedans—the Eagle Vision, Dodge Intrepid, and Chrysler Concorde. And in late 1993, Chrysler will launch a moderately priced subcompact that officials promise will be the first profitable North American-made small car in decades. "In the next three years, we'll be bringing out more new products than Chrysler brought out in the past 20 years," crows Eaton.

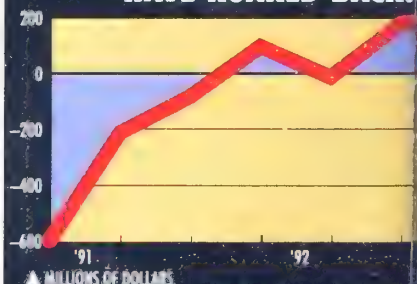
Even Iacocca's retirement at yearend shouldn't cause a ripple. Within the auto industry, Chrysler's top management team is considered among the most gifted in the U.S. Headed by Eaton, a 52-

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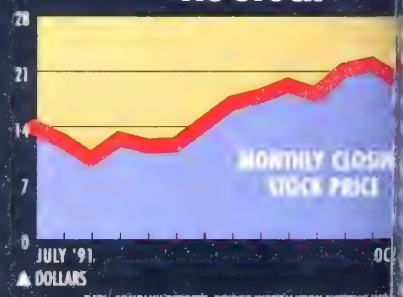


VICE-CHAIRMAN EATON AND PRESIDENT IACocca
"SING FROM THE SAME SONG SHEET"

CHRYSLER'S EARNINGS HAVE ROARED BACK.



...AND SO HAS ITS STOCK





CHRYSLER'S STRENGTHS...

...creating product teams, if trimmed development time for new models by 1.5 years

...has boosted sales with a string of hot products including minivans, the Jeep Grand Cherokee and midsize sedans

...has reduced annual overhead by \$4.2 billion in just 3.5 years with aggressive cost-cutting

...like GM, it has forged close links with suppliers and unions

...AND PROBLEMS

...junk-bond rating on its debt means that Chrysler can't raise money cheaply enough to offer better auto-loan terms to customers

...must come up with \$3.5 billion a year to finance new-product development

...despite the popularity of some of its models, Chrysler still lags behind Ford, GM, and Japanese automakers on quality

...needs to improve productivity. Ford and its rivals are more efficient

DATA: BW

year-old former General Motors Corp. executive hired in March to succeed Iacocca (page 96), the group has the kind of broad experience Chrysler needs to keep the momentum rolling. It includes stars such as Thomas C. Gale, the creative design chief who insiders say is also one of the company's shrewdest marketing minds, and Jerome B. York, the chief financial officer whose engineering background helps him cut costs without compromising the performance of Chrysler's products.

The cohesiveness among Chrysler's top management even survived Iacocca's dithering when it came to settling on a replacement. Many had speculated that Robert A. Lutz, Chrysler's president and onetime heir-apparent to Iacocca, would bolt when Eaton was brought in. But so far, the two executives appear to be getting along, with Lutz continuing to head Chrysler's critical product-development efforts. "We sing from the same song sheet," says Lutz, describing his relationship with Eaton.

SPEND STRATEGY. If Chrysler's is now a happier tune, it was quite a while in the composing. Executives at the auto maker have been holding their breath for three long years. Back in 1989, Iacocca and other top managers realized that the long-awaited recession was coming as profits dipped sharply. "I thought: 'Oh my God. We're going to tank again,'" Iacocca recalls. Detroit tradition mandated chopping new-product programs to husband cash and ride out the slump. But Chrysler's brass knew that route meant suicide, since the company's aging lineup already couldn't compete. The only alternative: keep spending on new models and ax overhead costs.

The strategy began to take shape on June 2, 1989. Bennett E. Bidwell, then head of Chrysler's automotive business, held a daylong meeting with 25 top officers at the Bloomfield Hills Country Club. Bidwell, Lutz, York, and others broke into teams and hacked \$1 billion from Chrysler's capital-spending plan. Smaller groups met later to smooth out the details. When Bidwell proudly presented the results at a Chrysler directors' dinner July 12, Iacocca dropped another bomb: He wanted an additional \$1 billion sliced from operating costs.

Chrysler continues to cut costs aggressively. And executives admit they have a lot more fat to trim. A recent study by consultants Harbour & Associates Inc. puts Chrysler's labor cost per car at \$1,872—less than GM's \$2,358, but not as good as Ford Motor Co.'s \$1,563. York says Chrysler will continue to improve productivity by cutting spending by 4% to 5% a year through the 1990s.

To do that, Chrysler is "benchmarking" everything from accounting to manufacturing. A team of nine senior executives from all areas of the company, including the United Auto Workers, is currently visiting 65 companies in the U.S., Asia, and Europe, looking for ways to improve operations. One early success: After adopting Motorola Inc.'s more-efficient accounting practices, Chrysler is closing its books a week earlier each quarter.

Chrysler has also overhauled its top-down, autocratic management structure. After an in-depth study of Honda Motor Co. by 14 young employees who hadn't been thoroughly steeped in traditional Chrysler-think, Lutz and engineering chief François J. Castaing began dismantling rigid departments, such as the engine division. They were replaced by nimble, Honda-like product-development teams. The teams pulled together in one location experts in areas as diverse as design, manufacturing, marketing, and purchasing. Each team got the power to make decisions ranging from styling to choice of suppliers.

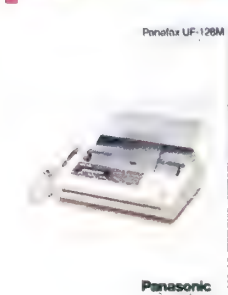
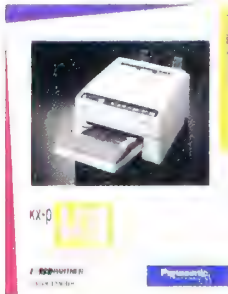
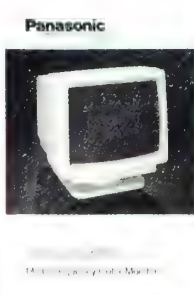
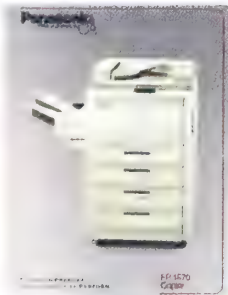
The result: a dramatic leap in efficiency. One team of 85 people designed the \$50,000 Dodge Viper sports car in just 36 months—an astounding feat for a company that has traditionally taken at least 4½ years to design new products. And less time means less money. The Viper cost just \$75 million to develop. By contrast, Mazda Motor Corp. spent \$118 million to develop its ragtop Miata.

The new approach demanded change from everyone in the company, right up to Iacocca. No longer could he rule by fiat. For instance, instead of striding into Chrysler's styling studios and ordering the kind of chrome-laden, boxy designs he prefers, Iacocca reluctantly acquiesced to team decisions. "I used to go in and tell them everything," concedes Iacocca. "But you can't do [design] by the seat of your pants."

TRUCKIN'. A little luck has helped the turnaround, too. Chrysler's strong products, minivans and Jeeps, happen to be in segments where sales are surging right now. Its industrywide truck sales are up 11% so far this year, while car sales haven't budged. It also helps that those products boast healthy profit margins. Chrysler makes an average of more than \$5,000 on every minivan it sells and up to \$8,000 on top-of-the-line Grand Cherokees. Many of Chrysler's cars, by contrast, barely break even.

Going forward, Chrysler is betting much of its continued success on the its ability to keep its product line fresh. The company has plans to unveil a new model every six months for the next few

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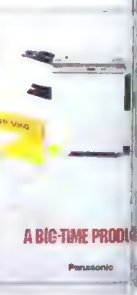
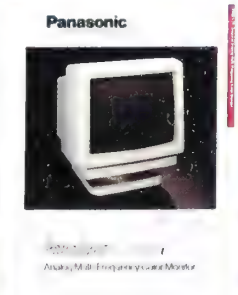
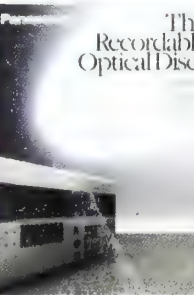
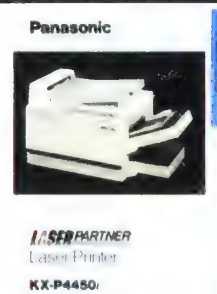
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PROFIT PARADE: CHRYSLER MAKES UP TO \$8,000 APIECE ON JEEP GRAND CHEROKEES

years. It wants to spend \$1.6 billion on new products through 1997.

So far, Chrysler's new products seem to be doing well. The LH sedans are still in short supply as the Bramalea (Ont.) plant that builds them gears up. But they're already causing a stir. Alan Spitzer, whose family owns 10 Chrysler dealerships in Ohio and Florida, says the cars are attracting buyers as well as sightseers who just want to look. "We've sold a few dozen—all we've been able to get our hands on," he says.

The new cars had better be winners. Chrysler is betting a total of \$1.6 billion in development and production costs on the LH. It's the company's last-ditch effort to reenter the lucrative midsize-sedan market, now dominated by the No. 1-selling Honda Accord as well as the Ford Taurus and

ELBOW ROOM. Next summer Chrysler's new midsize sedan, the T-300, which will offer daring styling and an optional cast-iron version of the T-300.

Then, early in 1994, will come the PL subcompact. Like the LH line, the PL will feature Chrysler's new 1.6-liter engine, which will make it roomier inside than competitors such as GM's Saturn and Honda's Civic. Chrysler engineers say a more powerful engine will also give it a sportier feel. A new compact car to replace the current, boxy Dodge Spirit and Plymouth Acclaim, plus an all-new minivan, will soon follow.

Of course, just one flop could jeopardize the cash flow Chrysler needs to fund development of subsequent models. A loser could also sour consumer appetites for new Chrysler models. But if the new products are hits, Chrysler could become a cash machine. Harbour & Associates' James E. Harbour, a former Chrysler executive, says the company's sales volume could jump from 1.5 million vehicles a year to 2.5 million. And profits would follow.

Despite the rosy profit forecasts, Chrysler faces some daunting challenges in the months and years ahead. The corporate cash crunch is probably the most pressing problem. Chrysler wants to come up with \$2.5 billion to \$3 billion in

paying down its pension liability. That's a tall order on top of the roughly \$3.5 billion it will need every year to develop new products.

Chrysler officials insist they can find the cash they need without resorting to another stock sale. But that may be too optimistic given the company's cash demands. An investment banker who has worked with Chrysler in the past says the company is merely biding its time while the stock price rises before announcing a new issue.

BOND BURDEN. Chrysler's poor standing in the credit markets is also beginning to take its toll. Ever since its bond ratings slipped below investment grade two years ago, Chrysler Financial Corp. has had difficulty matching the consumer financing rates offered by competing car companies. Increasingly, that has meant lost sales. CFC also can't finance new-car purchases at Chrysler's rental-car companies—Dollar, Budget, and Thrifty. As a result, they're turning to higher-cost financing elsewhere, further pinching margins. And Chrysler executives don't expect to regain an investment-grade rating until 1995 at the earliest.

As if the financial hurdles weren't enough, Chrysler also needs to work on quality, an issue that has nagged it for years. Chrysler cars and trucks, while vastly more reliable than they were 10 years ago, still don't match the competition. Chrysler models virtually never achieve the industry average for quality, according to surveys by market researcher J. D. Power & Associates Inc. The company is trying to remedy that with the LH sedans, which are aimed at upscale buyers who won't settle for anything less than the top quality they're used to in Japanese models. Still, Iacocca

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admits: "The quality jury is still out."

Eaton knows Chrysler has to do better if it's going to compete. Already, he has developed a reputation as a quality guru. He has pushed engineers to improve designs so cars are simpler and easier to build and thus less likely to develop problems. For example, engineers on the PL-subcompact team have reduced the variety of nuts, bolts, rivets,

and other fasteners they use. The cars will have about 2,000 parts in all, down from 3,000 in the models they replace. That brings costs down, too. The PL's \$1 billion startup budget is one-fifth of the \$5 billion GM has sunk into Saturn.

Despite the lingering problems, Eaton could hardly have asked for a better time to take the wheel at Chrysler. If the economy cooperates and car sales

pick up, there's a good chance that Chrysler may finally be rid of its reputation as the auto industry's perennial weakling. Says Eaton: "I feel like a batter coming in with the bases loaded and nobody out." All Chrysler's next boss needs is some solid hits to guarantee Chrysler's winning streak.

By David Woodruff in Detroit, with Elizabeth Lesly in New York

BOB EATON IS NO LEE IACocca—BUT HE DOESN'T NEED TO BE

The whispering went on for days in Detroit early last March. Chrysler Corp. Chairman Lee A. Iacocca's imperial reign was nearly over, and he had announced his successor: a low-key engineer named Robert J. Eaton, president of General Motors Europe. Word spread through the Chrysler Building that Bob Eaton likes to consult widely before making a decision. The in-house translation: Eaton is a wimp.

Within days, however, any notion that the incoming chief executive was indecisive was quickly put to rest. By the time Iacocca introduced him to Chrysler staffers on Mar. 16, Eaton had already penned a memo telling them he believed in "participatory management, not consensus management." The message was clear: Eaton will be calling the shots when he takes over from Iacocca at the end of 1992. But the memo was also a sure sign that Chrysler's executive suite will see some big changes in management style.

Eaton's low-key approach is a far cry from Iacocca's high-profile flash. While Chrysler's current chief enjoys his celebrity as the savior of the nation's No. 3 auto maker, Eaton shuns the limelight. Indeed, he says he won't play pitchman on TV commercials as Iacocca has.

SHIRTSLEEVES. Where Iacocca relished the perks of high corporate office, Eaton, 52, prefers no frills. At his Zurich headquarters, he invariably worked in shirtsleeves and thought nothing of collecting his own mail if his secretary was away. And while Eaton can be "abrupt," says one former subordinate, he's not given to sudden fits of temper. He is unlikely to reduce subordinates to jelly, as Iacocca was known to do.

As a manager, Eaton sees himself as a team leader. "He laid out broad objectives," says the former colleague. "But he left it up to you how to achieve them." That was key to attracting and keeping top-notch staff in Europe, and it'll be equally important in working with Chrysler President Robert A. Lutz, who was passed over for the top job.

Eaton's experience offers another promise for Chrysler: He knows how to turn an auto company already on the

plans for Chrysler, waiting to assert himself after Iacocca steps down. But judging from his tenure at GM, high on the list of his priorities is efficient production, an area where Chrysler still needs to make a lot of headway to stay competitive. Iacocca credits his successor with making GM the lowest-cost producer in Europe.

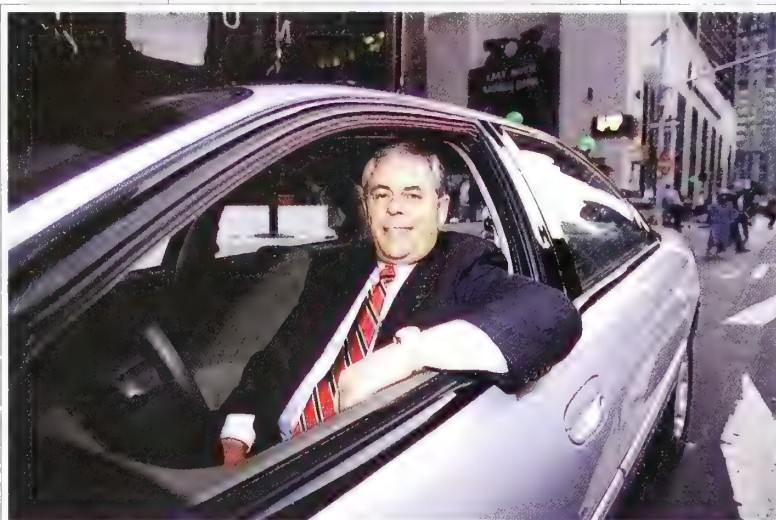
UP ALL NIGHT. To achieve that productivity, Eaton squeezed more output from existing plants in Europe, partly by negotiating innovative labor deals. For instance, at GM plants in Germany and Austria, he struck union pacts that allowed round-the-clock production.

Eaton was also quick to take advantage of cheap labor markets. After the Berlin Wall toppled in 1989, Eaton began building a \$660 million plant at Eisenach, in eastern Germany, where wages are less than half those in western Germany. The plant will turn out 150,000 of GM's new Astra cars a year by 1993.

The lower-cost strategy was extended to car design as well. The new Astra compacts have 28% fewer parts than their predecessors. That reflects Eaton's admiration for the lean auto engineering methods pioneered by the Japanese.

The Chrysler that Eaton is set to inherit is about the same size as the GM Europe he left. The carmaker is also at the same stage in its turnaround—out of intensive care, churning out new products, and revved-up for a profits surge. Undoubtedly, Iacocca and the Chrysler board hope the comparisons won't end there. They want Eaton to roll up his sleeves and engineer as smooth a ride for them as he did for GM.

By John Templeman in Bonn



EATON: CHRYSLER LIKED THE WAY HE TURNED GM EUROPE INTO A PROFIT-GUSHER

mend into a profit-gusher. After he inherited the top job at GM Europe from John F. Smith Jr.—who's now in line for the top job at GM—Eaton racked up \$5.5 billion in profits over three years as the U.S. parent slipped deeper into the red.

Colleagues say the stocky executive, who is married and the father of two sons, is "a car guy to the tips of his toes." Born in Buena Vista, Colo., he was tuning up his first car—a '32 Chevy—at age 11. A graduate of the University of Kansas with a degree in mechanical engineering, Eaton confesses he still misses the chance to speed new cars around the test track as he did as a GM engineer in the mid-'70s.

So far, Eaton has avoided airing his

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An ideal open system begins with a plan for your business needs, and IBM can help you with it, probably better than anyone. What an open system goes far beyond hardware, operating systems and all the standards we support. It includes the *services* you'll need to get everything work.

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example, we built an open system that's improving customer service. Based on the IBM RISC System/6000,[™] it works in close partnership with their DEC,[®] Tandem[®] and IBM mainframes, on a network that includes both TCP/IP and SNA protocols. And along with IBM banking software (customized by one of our Business Partners), it runs a wide variety of off-the-shelf UNIX applications. And we not only helped integrate the whole system, we provide ongoing service.

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LESS-THAN-FANTASTIC PLASTIC

AmEx continues to lose cardholders as it tries to adjust to the value-oriented 1990s

Shortly after Harvey Golub moved from Minneapolis to New York to take over American Express Co.'s troubled credit-card division in July 1991, he signed up at the company's fitness center to sweat off a few pounds. Yet he's been spending so little time there that, when Golub recently ran into the gym's fitness director, he didn't recognize him.

Golub has been working overtime trying to get the card business, the core of Travel Related Services, in shape. AmEx' chief cash machine. TRS is suffering from sharply eroding profits. No one can accuse Golub of sitting on his hands. On Oct. 22, AmEx unceremoniously dumped its ad agency of the past year, Chiat Day Mojo Inc., whose ads were criticized for being confusing and uninspired. The next day, AmEx announced a loss of \$187 million for the quarter, because of a \$342 million restructuring

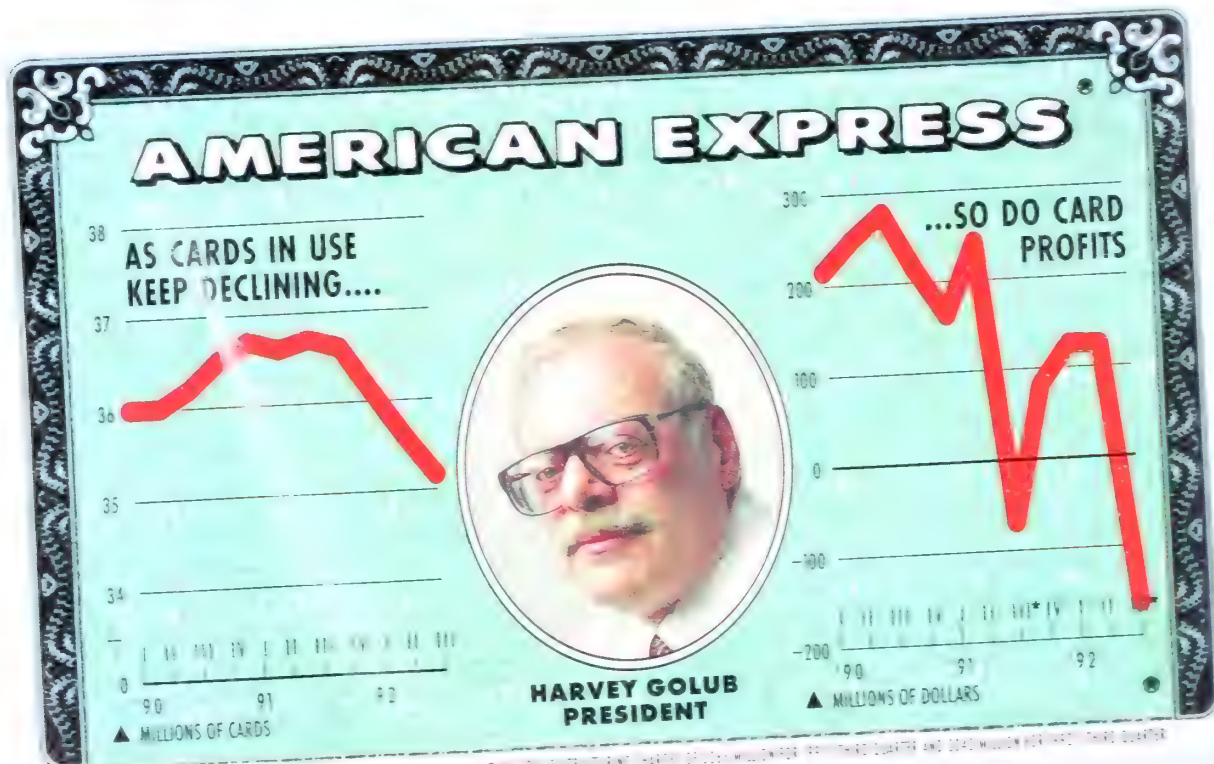
charge at TRS. But will it cost it 1,500 jobs, 9% of AmEx's work force. "I think it's a positive. They are finally getting off of square one," says Guy Moszkowski, an analyst at Sanford C. Bernstein & Co.

SPECIAL DEALS. Cost-cutting will certainly help. AmEx predicts that the move will produce annual savings of \$224 million during 1993, \$356 million in 1994, and about the same amount in 1995. "Harvey is getting the company in position to lower pricing so he can kick the crap out of the bank cards," says E. Wilson Davis, an analyst at Gerard Klauer Mattison & Co.

But it's far from clear that these and other recent moves by Golub address the card division's broader strategic problems. AmEx' old strategy was delivering an upscale product that enabled the company to charge customers and

merchants more for its traditional green service. Yet what was right for the affluent 1980s isn't working very well in the value-oriented 1990s. AmEx has to compete with a horde of competitors offering all manner of special deals, discounts, rebates, and other features. The most visible result of the competition is that AmEx is losing customers in droves. In each of the last three quarters to date, AmEx has lost more cardholders than it gained.

To date, AmEx hasn't done much beyond responding to competitors. And it's still marketing itself as a premium product, even while signing up lower-end merchants. On Oct. 26, the company announced that the holders of its new card at Kmart. "AmEx used to be a high-priced card with high-perceived value, only for the most affluent. The clearly stepped back from that. What



it been replaced with? I'm not sure," says card consultant Donald Auriemma, president of Auriemma Consulting Group Inc. "One thing is clear: Their strategy is not apparent to industry watchers."

THE OFFENSIVE. Golub denies that TRS is an effective strategy. A big believer in employee communications, he, along with TRS President Jonathan S. Green, distributed a six-page memo to 100 AmEx employees on Oct. 26 entitled "Elements of our Strategic Vision." In it, he paints in broad strokes ambitious plans to "earn 100%" of customers' discretionary spending. Yet the plan doesn't provide much in the way of specific new initiatives. His basic idea: "We must offer cardmembers a variety of ways to pay for virtually all their purchases—charge card, revolving credit, and personal, debit." AmEx will put special emphasis on Optima, its revolving credit card, and may even offer credit to AmEx cardholders. From now on, the company says, TRS "will be far more oriented towards going on the offensive."

Golub insists the outlook is much better than critics contend. He blames the decline in cardholders on AmEx' difficulty in attracting new customers, rather than the more serious problem of cardholders simply canceling their cards, which he says is slowing down. Further, not all cardholders are using their AmEx cards more. Average spending per cardholder in 1992's third quarter is \$843, up from \$760 a year ago. "I feel great about spending per cardholder. We're seeing the first major uptick in a decade," says Golub. Much of that growth is due to its new Membership Miles program, which, like similar features offered by other card companies, gives users frequent-flyer miles.

Golub is also planning several pricing changes. To allay complaints by merchants, he will selectively rejigger some of the fees merchants pay to AmEx in January 1993, which will bring them in line with those charged by bank-card issuers. "We expect that a year from now, the average discount rate will be lower than today," says Golub.

Will these initiatives work? One obvious potential problem is simultaneously increasing costs while trying to maintain it. Golub's memo calls AmEx' "worldwide global service." To accomplish that, AmEx is phasing in the layoffs throughout the company. But prolonging the uncertainty won't help employee morale.

MAIN CHALLENGE. Also problematical is Golub's idea of playing up the Optima card, which he sees as a major income source in the future. Although balances on the green card must be paid off every month, AmEx surveys indicate its cardholders are very interested in having a revolving credit product. But Optima,

which carries a \$15 fee, is a relatively obscure brand with only 3.2 million cardholders. It is accepted by far fewer merchants than Visa or MasterCard. To build up Optima to a major credit card would at the very least be costly.

Yet Golub's thorniest challenge is TRS' long-term strategy. The most graphic symptom of the company's strategic groping is its current turmoil with its advertising campaign. In the 1980s, its longtime ad agency, Ogilvy & Mather Worldwide Inc., successfully captured AmEx' upscale identity with such campaigns as one showing handsome photos of classy AmEx cardholders.

Last year, AmEx fired Ogilvy from its

green card account and hired Chiat/Day/Mojo, which Golub now admits was "an error." AmEx believes Chiat's ads had failed to improve or even articulate its image. "There was tremendous confusion early in the game. Everybody [at AmEx] had their own point of view," says Martin Grant, a former Chiat executive who now works at ad agency D'Arcy Masius Benton & Bowles Inc.

Golub is clearly striving to dispel the confusion, not only about TRS' ads but its strategy. He's been taking positive steps. But it may be a while before he makes it back to the gym.

By Leah Nathans Spiro, with Mark Landler, in New York

MARKETS & INVESTMENTS



HUNTING INVESTORS WHO WILL GO THE DISTANCE

Companies woo institutions that provide 'patient' capital

Almost since the dawn of the ticker tape, companies have relied on the same tools to lure investors: whiz-bang press releases, rubber-chicken lunches, and the occasional corporate road show. Such efforts may bring investors in, but they haven't done a good job of keeping them for the long run. Companies have learned to their chagrin that for many big shareholders, the long term lasts until the next quarterly earnings report.

But now, a growing number of companies are radically changing the way they present themselves to big investors. With the help of sophisticated data

bases, they're employing new techniques to identify or "target" institutional money managers they would like to have as shareholders. Then they make a strong pitch to those prospects. "We've gone from a scattergun approach to a rifle shot, and now we're finding institutions we truly want to be our investors," says Russell J. Page, senior vice-president of NationsBank.

Targeting is a quest for "patient" capital—shareholders who will not dump their stock for want of a few cents a share on an earnings report. Companies try to identify institutional investors that already back companies with similar

characteristics. In theory, at least, that means these investors will "understand" the company and be more willing to stick it out through good times and bad.

Of course, most of these companies are not selling new stock directly to institutions. But in luring pension fund and mutual-fund managers into buying their stock on the exchanges, these companies hope to increase the price of their shares. That makes existing shareholders happy, and just as important, a high stock market valuation can give a company a competitive edge. A company's cost of capital is tied to its stock's price-earnings ratio: the higher the p-e, the lower the cost of capital. Lower capital costs allow companies to pursue projects and ventures that higher-cost competitors can't.

Targeting shareholders is a cottage industry, but it is booming. A half-dozen consulting firms have signed up more than 500 companies, including Baxter International, MCI Communications, Playboy Enterprises, Texaco, and Xerox. "Instead of trying to be out there with 4,000 investment clubs and 4,000 institutional holders, companies can go to just 50 targeted investors," says Joe Shenton, a targeting consultant whose OLC Corp. will ring up \$5 million in revenues this year from 136 clients. Shenton says clients in 13 different industries have been able to identify nearly \$3 billion in stock purchased by targeted investors.

ECLECTIC BUNCH. The desire for more patient capital is what led athletic wear manufacturer Nike Inc. to start targeting three years ago. Nike officials were concerned that institutional investors seemed to be trading the stock rather than buying for the long term. The result: volatility in stock price and in the shareholder rolls.

To find more long-term investors, Nike turned to OLC. The consultant, tapping a vast computer data base, compared Nike's financial performance and projections with 13,000 domestic and foreign companies to find those with similar characteristics. At first blush, Nike's peer group was surprising—a diverse list that included Boeing, Hershey Foods, Liz Claiborne, and Nordstrom. Yet according to OLC's analysis, the companies shared similar characteristics such as return on capital and earnings growth rate. A list always emphasizes companies in different industries, since institutional investors usually want

FINDING FRIENDLY SHAREHOLDERS

BAXTER INTERNATIONAL

Has attracted more than \$500 million of stock purchases by targeted institutions in less than one year

DOW CHEMICAL

Had a hard time keeping investors because of the chemical industry's cyclical nature. Seeking longer-term shareholders, Dow has held 50 one-on-one meetings with specially selected money managers this year

HARRIS

After a strong third-quarter earnings report, Harris employed 'market surveillance' techniques to spot buying by institutions. Company then started pitching itself to money managers with similar investment goals

NATIONSBANK

Of 105 money managers courted by the bank, 70 bought the stock. These new shareholders were also big investors in the \$382.5 million secondary stock offering held in February of this year

NIKE

Started a program in 1989 to attract institutional investors that will hold its stock for the long run. Such investors now hold shares worth about \$570 million, and make up about 23% of all the company's institutional shareholders

DATA BY

diversification—not more of the same.

Once OLC identified the Nike peer group, they examined the holdings of institutional investors to find those who had some of the peer-group stocks. From that, OLC developed a list of 50 institutions deemed good prospects because the investors used yardsticks against which Nike would measure well—especially discounted cash flow and earnings momentum.

The search paid off. Today, after a host of one-on-one meetings with fund managers in 12 cities, 52 targeted institutions hold 23% of Nike's stock. And the program is ongoing, as Nike is always on the run for new shareholders. "When we contact our targets, they've already invested in companies that are similar to us. We're speaking their language," says Ronald A. Parham, Nike's director of investor relations. Parham says the strategy really proved itself

Nike is 'starting to market to Wall Street the way they market their sneakers,' says a fund manager

last year, when Nike's stock was hammered by rumors that its inventories were out of control. True, some institutions, such as Chancellor Capital Management Inc. and Jennison Associates Capital Corp., dumped the stock, but most targeted shareholders who bought in are still on board. "Now we have a relationship that's been tested over time," says Parham.

TOUGH CROWD. Nike figures its program has contributed to the recently robust stock price of \$78 and the fact that the company is trading at nearly 18 times earnings, compared with 11 for Reebok International Ltd. One of Nike's biggest institutional holders concurs: "They're starting to market to Wall Street the way they market their sneakers," says one fund manager.

Targeters go beyond databases to develop leads. They're also using "market surveillance" techniques to spot changes in institutional shareholders. Consider Harris Corp., an electronics company that posted strong third-quarter profits. After the announcement, its targeting consultant, Carson Group, spotted new institutional investors

moving into the stock. From that information, the consultant was able to identify like-minded money managers that Harris could approach about becoming a shareholder. "You've got to identify trends, rhythms, and patterns in the market that tell you who's getting in and out of your stock," says David M. Geliebter, senior partner at Carson. "That's how you know where your next target is."

There are traps in targeting, too. Geliebter recalls a company that had successfully pitched itself to several pension funds. But management was furious when its annual meeting time came around and the company was faced with several antimanagement proxy resolutions put forth by its new shareholders. Even though management beat back the proxies, the investor relations officer lost his job. "You have to be careful of institutions that have firm set policies," says Geliebter. "Once they're in your stock, they're going to take a very firm stand against you if they have to."

As the trend toward targeting continues, that's a risk that more managements may have to face. But it's a small price to pay to attract investors who have a notion of a long-term investment goal far beyond the next earnings report.

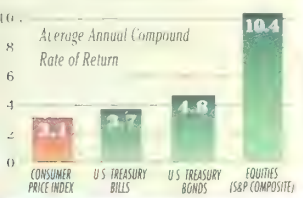
By David Greising in Chicago

Introducing the Merrill Lynch Fundamental Growth Fund

If you're looking for an investment to help you meet long-term goals, you should look into equities. As the chart below shows, over the 66-year period that ended in 1991, equities have outperformed other types of financial assets. And in choosing a suitable equity fund, consider the Merrill Lynch Fundamental Growth Fund – a long-term fund for long-term investors.

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Consumer Price Index
Source: Ibbotson Associates, Inc., Chicago.

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To quench his thirst, a crow dropped pebbles one by one into a pitcher until the water level rose and he was able to drink.
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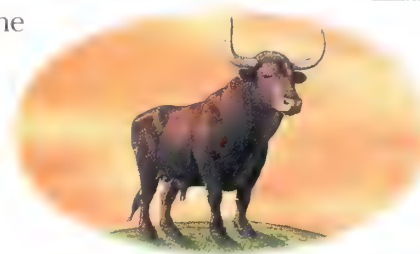
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FLEET'S SHIP COMES IN

Its Bank of New England unit has earned fat profits fast

To buyers, the Bank of New England had all the allure of a toxic-waste dump. The nation's third-largest bank failure, BNE collapsed in January, 1991, after losing \$600 million over the previous two years. With the region's economy in free-fall, busted companies and vacant real estate had buried the bank in bum loans. The chance of ever making money from Boston's BNE seemed laughable.

In a federal auction for BNE, Providence's Fleet Financial Group Inc., which submitted the top bid of \$625 million, had only two rivals: Bank of America and Bank of Boston Corp. "If everyone knew then what we know now, there would have been 50 bidders," says an ebullient Terrence Murray, chairman of Fleet.

He may be right. Little more than a year later, BNE is generating healthier profits than many people had thought possible. Following the BNE acquisition, Fleet's earnings exploded (chart). On Oct. 21, Fleet reported third-quarter earnings of \$72 million, with \$31 million coming from former BNE banks located in Massachusetts and Connecticut. Fleet now forecasts that BNE will contribute as much as \$200 million in profits in 1993. Even better, the BNE purchase has made Fleet the largest bank in New England, with \$45 billion in assets, up from No. 4.

FDIC MOP-UP. True, Fleet has had some help. The banking industry is bouncing back nationwide, by exploiting the spread between the extremely low interest it now pays out for deposits and the higher-yielding Treasuries it has been investing in. Fleet has also benefited from the extraordinarily generous terms allowed by the Federal Deposit Insurance Corp. in the BNE sale. Citing the huge size of the failure, the FDIC absorbed all losses related to BNE's sour loans, set up a special "bad bank" separate from Fleet to hold these loans, and paid Fleet to liquidate them. Insulated from the lousy loans, Fleet had little trouble absorbing BNE's remaining assets. "The results are nothing less than spectacular," says Jeffrey L. Cohn, a banking ana-



CEO MURRAY IS A VETERAN AT MELDING OPERATIONS

lyst at Boston's H. C. Wainwright & Co.

The real key to Fleet's success, though, was cutting costs quickly—not an easy task at a monster such as BNE, New England's No. 2 bank before it failed. Up till then, BNE had amassed \$32 billion in assets by acquiring 41 banks over 10 years. It boasted New England's largest retail branch network and a huge share of the region's business loans. But it also had a confusing mish-mash of back-office computer systems.

Fleet consolidated the computer systems, including BNE's six computerized deposit systems, which are now one. What's more, it closed one-quarter of BNE's 323 branches. And Fleet fired almost half of the bank's 11,000 employees. As a result, there has been a \$350 million reduction over 15 months in BNE's \$775 million in overhead costs.

Murray's previous experience in folding operations together has come in handy. His dress rehearsal was in 1987, when he acquired Norstar Bancorp in Albany, N. Y., a bank nearly as big as Fleet at the time. Murray, a stocky Harvard University graduate brought up in a mill town near

Providence, has shown a deft touch at making regional expansion work. After a spate of other acquisitions, Fleet now has banks in five New England states, plus New York. He was among the first to centralize certain back-office functions, such as cash-management systems. He also successfully diversified Fleet into nonbanking operations, including the country's second-largest mortgage-servicing company and a large student-loan-processing unit.

UPROAR. All of this has been good news to Fleet's shareholders, most notably Kohlberg Kravis Roberts & Co., the New York investment firm that put up \$283 million to back Fleet's bid in return for a 12% stake. KKR has cashed in its profit yet, but there's bound to be plenty. On paper, KKR has nearly doubled its money.

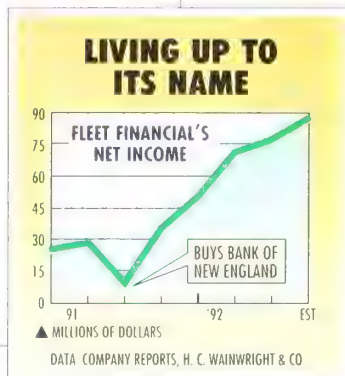
Not everyone was so fortunate. Many of BNE's former borrowers, for example, had a real hassle. Although current on their loans, they

ended up dumped into the FDIC-created Fleet-managed bad bank, RECOLL Management Corp., because the value of their collateral had fallen below the loan amount. Fleet's attempts to call those loans triggered an uproar, so it backed off and now is trying to restructure instead of liquidate many of the loans.

Fleet has other problems unrelated to BNE. Nonperforming loans are not declining as fast as those of its competitors. Nonperformers fell by 6% in the third quarter, to \$1.4 billion, but at neighboring Shawmut Bank they fell 20%, and at Bank of Boston by 17%. Fleet is planning a quick fix: selling \$500 million in rotten loans over the next 18 months to investors.

If Murray pulls that off, Fleet will have even greater financial flexibility to buy into new markets. "We want a broad base of profit centers," he says. He is eyeing bank purchases in the Midwest or the Mid-Atlantic region, where he sees better prospects than in his home area. With luck, they'll be less of a challenge than Bank of New England.

By Geoffrey Smith
Boston





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BY GENE G. MARCIAL

PLANNING FOR THE AFTER-POSNER PARTY

Victor Posner is so disliked by Wall Street that he has turned investors off to the asset-rich conglomerate he controls. Institutional investors have chosen to ignore the company even with the controversial Miami financier on the way out as chairman and CEO. But some smart-money investors have started buying in despite the complexity of a court-ordered settlement designed to force out Posner, who has a 46.2% stake in DWG. These pros argue that with Posner's impending ouster, the stock, which has edged up from 8 a share in mid-June to 11, could be worth 20 to 25.

That value is based on the company's underlying assets, says Mike Connor, investment strategist at Farnestock. He assumes that a post-Posner management will either sell off certain assets or manage them effectively for the benefit of shareholders. DWG's businesses include Arby's, which operates and franchises a total of 2,500 restaurants; soft-drink maker Royal Crown Cola; and National Propane, a distributor of liquefied petroleum gas in 19 states, primarily in the West.

The change in management, says Connor, could bring about a rapid improvement in DWG's financial performance and clear the way for realizing the company's real worth. DWG has been in the red since 1989, but Posner has resisted several buyout offers, either for the company as a whole or its subsidiaries. The last attempt was a 1989 offer by Granada Investments to purchase DWG at \$22 a share.

EASING OUT. Posner rejected the bid, and some shareholders sued. As part of a settlement, U.S. District Judge Thomas Lambros in Cleveland appointed three outsiders to the board. After more than a year of trying to correct alleged corporate mismanagement and wrongdoing by Posner, the board, with the court's support, designed a plan to force him to relinquish control.

Part of the deal is for Posner to sell half of his stake to a New York investor group led by Nelson Peltz and Peter May at \$12 a share. The rest of Posner's stake is to be converted into nonvoting preferred shares, convertible into common stock at \$14.40 a share. Posner will then relinquish his posts

DWG: OUT FROM UNDER A CLOUD



of chairman, CEO, and director. Shareholders and the court have yet to ratify the settlement, and Judge Lambros is scheduled to hold a hearing on Nov. 17.

If for any reason the court rejects the proposed settlement, two other investor groups are eagerly waiting in the wings to propose their own takeover of DWG, says a New York investment manager. One group is led by money manager Mike Steinhardt, who owns about 4% of DWG's stock.

BIRTCHER IS FEELING BETTER, THANKS

Even the most bullish health-care investors have just about given up on Birtcher Medical Systems. After all, its stock has collapsed from 20 a share at the beginning of the year to 6%. But some pros are taking the opposite stance by snapping up Birtcher shares. They argue that the reason behind the stock's gigantic decline has just been resolved.

On Oct. 19, Pfizer dropped its lawsuit against Birtcher that challenged the validity of Birtcher's patent on its Argon Beam coagulator device, used in laparoscopic surgery. The suit, filed in March, was the main cause for the sharp drop in Birtcher's stock, say these pros. Pfizer's Valleylab subsidiary has held a patent for a gas coagulation device since 1977.

Pfizer agreed to drop its lawsuit in return for a licensing pact to sell Birtcher's coagulation technology. Valleylab will pay Birtcher a onetime fee of \$2.5 million, plus a 5% royalty on sales of its gas coagulation device over

the life of Birtcher's patent, which expires in 2005.

That settlement failed to attract investor attention, and the stock hardly budged. But Evan Sturza, editor of *Sturza's Medical Investment Letter*, believes that once the Street wakes up to the settlement, Birtcher's stock will zoom. "If the Pfizer suit maimed Birtcher's stock, shouldn't a highly favorable settlement push the stock higher?" asks Sturza. Current earnings estimates for 1993 of 40¢ a share are too low, he says. Sturza expects earnings to jump to 55¢ this year, 70¢ next year, and 93¢ in 1994. His target for the stock: 12 in six months.

SHORTING THE SHEETS

After a summer lull, La Quinta Motor Inns appears to be on the upward trek again. Its stock has risen to 19 a share from 15 in mid-July. But don't bet on La Quinta staying on the high road, say some investors who have started shorting the stock. They warn that it could tumble to as low as 10. Here's why:

La Quinta, owner and operator of a chain of 200 inns located in 29 states, is at best "a chancy bet," says a California fund manager, because of the current proxy fight being waged by a dissident group at La Quinta Motor Inn LP, a publicly traded limited partnership that owns 31 La Quinta Inns and 20 restaurants in 15 states. These 31 motels are among those that La Quinta Motor Inns manages. And they are "big deal" for the latter's bottom line.

Last year, La Quinta partnership-owned motels accounted for "about \$1 million of the \$6 million earned by La Quinta Motor Inns," says the editor of the *Overpriced Stock Service* newsletter, who uses the name Ursa Major. The dissident group, led by Ronin Partners, believes that the La Quinta partnership is paying La Quinta Motor Inns "far too much money" for running its motels, explains Major. So the dissidents want to liquidate the partnership and sell the properties. If does, La Quinta Motor Inns' earnings will almost disappear, says Major.

"Without the income from the partnership, we think LQM can sell down its book value of 9 to 10 a share," says Major. He figures there's little risk shorting the stock. Even if the dissidents lose the proxy battle, he says "we don't see this stock trading above its 12-month high of 19."



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Developments to Watch

EDITED BY OTIS PORT

WAR OF SIBERIA, WAR OF NIGHT...



There may be a new star in the sky this Christmas. In early December, Russian scientists hope to unfurl a 65-foot-wide "umbrella" 250 miles up to reflect sunlight to earth and turn night into dawn.

The Space Regata Consortium, a group of 15 state-owned enterprises in Russia, has been developing the umbrella since 1989.

Northern Siberia needs artificial light, especially during polar nights," which last 20 hours or so, says Vladimir S. Syromyatnikov, the consortium's technical director. If the December works, umbrellas parked in higher orbits could each provide a predawn level of illumination for a city. The savings in principal lighting would probably pay for the umbrella in a few months. Ultimately, says Syromyatnikov, hundreds of so-called reflectors might ring the earth, with some available for emergencies—for instance, to light the way for relief workers in the wake of earthquakes or other disasters.

CAUTION, THAT BLIP ON THE SCREEN A TAXI SLOWING DOWN

Some 20 Israeli police cars will soon be outfitted with a new laser-based radar system, called Controlaser, that should make driving safer. The system displays the distance to the vehicle in front, its speed, and the collision time in seconds if the vehicle is going slower or approaching.

If this sounds expensive, it isn't outrageously so. When Controlaser hits the consumer market next year, first in Germany, it will sell for about \$600, including installation. "We've been able to drastically reduce the price of this technology," says Avner Shur, founder of Silicon Valley Ltd., a Haifa startup that has spent more than \$1 million of government and private money on the system. A similar collision-warning system from San Diego's Vorad Safety Systems Inc. costs more than triple what the Israeli unit does. Israel's Ministry of Defense & Industry invested in the technology to help cut the country's high accident rate. Studies indicate that with an 8-second warning, drivers could avoid 60% of rear-end crashes and 30% of head-on collisions.

UNSCRAMBLING GENETIC CODES: PROGRESS REPORT

After years of sleuthing, scientists are zeroing in on the gene that causes Huntington's disease, an inherited brain disorder that leads to involuntary jerking movements, memory loss, and death. In fact, rival researchers report two promising discoveries in the November issue of *Nature Genetics*. A team led by James F. Gusella of Massachusetts General Hospital is betting on a gene on chromosome 4 that "codes" for a protein crucial to the inner structure of cells. Michael R. Hayden and colleagues at the University of British Columbia

have linked the disease in one patient to a rearrangement of the normal sequence of a nearby gene. Proving either theory would be a major step forward.

Meanwhile, other scientists are moving briskly to identify the functions of all 50,000 to 100,000 human genes. In the Oct. 29 *Nature*, French geneticists said they have constructed a relatively detailed map of human DNA. It provides chromosome signposts that make it easier to find specific genes. The new map, researchers say, means the Human Genome Project, as the gene-discovery effort is called, is ahead of schedule. Some now predict that all human genes will be decoded by 1999.

TWO MORE TELLTALE SIGNS OF COLD FUSION

The circle of evidence suggesting that cold fusion may be real after all has closed a little tighter. At the Third International Conference on Cold Fusion, held in late October in Nagoya, Japan, both Nippon Telegraph & Telephone Corp. (NTT) and India's Bhabha Atomic Research Centre (BARC) reported that they had found the telltale "ash" of nuclear reactions in cold-fusion experiments.

NTT found helium-4 in all five of its latest experiments, while BARC detected tritium in more than a dozen heat-generating experiments it has run since January. Both helium-4 and tritium are rare in nature, and nuclear fusion is virtually the only explanation for amounts of these elements above the so-called background level.

NTT's results are perhaps the most persuasive, because the tests conducted under the direction of Eiichi Yamaguchi, an NTT senior scientist, were done in a vacuum chamber. Contamination from natural helium-4 is thus unlikely. Still, because some previous reports of helium-4 byproducts were traced to contamination, scientists are reserving judgment until NTT's experiments are replicated by other labs.

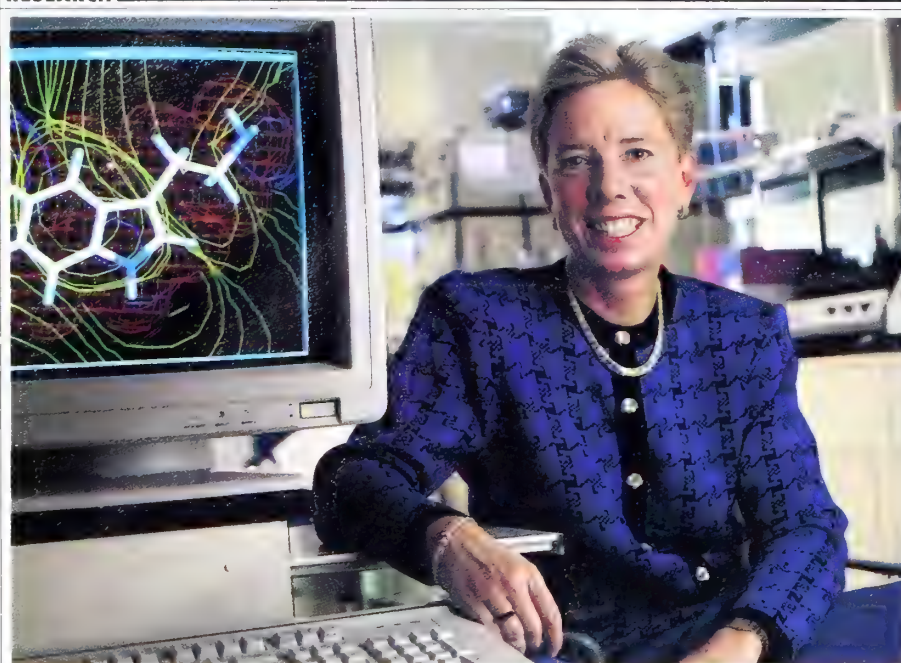
GOING AFTER THE METHANE LOCKED UP IN LIMESTONE

Talk about taking the long view: Researchers at the Tokyo Institute of Technology are looking toward the day, perhaps a century from now, when cheap fossil fuels will be depleted. What will industry burn then? If cold fusion doesn't pan out, would you believe limestone?

Not limestone exactly—but methane from it. A team of chemists led by Tadayoshi Sakata is using catalysts to more efficiently coax methane ingredients from calcium carbonate, or limestone, which harbors roughly 99% of all the carbon locked up in the earth. Liberating this carbon is already possible, yet the process requires about as much energy as it produces. Scientists in Australia are also experimenting with better techniques, but Sakata's team believes it has the best one yet: It uses a nickel catalyst to trigger a reaction between hydrogen gas and limestone heated to about 670F. This yields 3 cubic centimeters of methane per hour from each ounce of limestone—and the methane output can be boosted by mixing in small amounts of other carbonates, such as cobalt carbonate.



RESEARCH



SYNAPTIC CEO MULLINIX GOT \$12 MILLION FROM LILLY TO DEVELOP SEROTONIN TREATMENTS

RACING TO UNLOCK THE SECRETS OF SEROTONIN

Drugmakers look to base an array of drugs on the brain chemical

Schizophrenia is formidable—as are drugs that treat it. They cause an excessive drop in the chemical dopamine, a key to muscle movement, leading to such side effects as tremors and stiffness. But schizophrenics may soon stop getting the bad with the good. Janssen Pharmaceutica Inc., a unit of Johnson & Johnson, is seeking Food & Drug Administration approval of a drug called risperidone that avoids side effects. "It's a superb agent," says Dr. Richard L. Borison, chairman of psychiatry at the Medical College of Georgia in Augusta.

Risperidone is also a sign of the huge potential from research into a brain chemical called serotonin. Serotonin acts as a messenger, switching nerve cells on and off, and in so doing provokes subtle changes that modulate mood and behavior. Imbalances of the chemical may cause such psychiatric ills as anxiety,

depression, addiction, and schizophrenia. The chemical is implicated, too, in migraine headaches and nausea. Cures for those represent markets worth billions, so big drug houses such as Glaxo, Eli Lilly, Merck, and Marion Merrell Dow are on the case. "Serotonin is one of the most fertile grounds for drug development," says Paul R. Hartig, vice-president for research at Synaptic Pharmaceutical Corp., a drug startup in Paramus, N.J.

Some of serotonin's promise already has been tapped. Prozac, the \$1 billion drug developed by Eli Lilly & Co., combats depression by increasing levels of the chemical in the brain. It does this by slowing the removal of serotonin from synapses, the junction between nerve cells. But the future of such research may lie in an approach taken by Glaxo Group Research Ltd. to develop two other drugs. One, introduced in 1990, prevents vomiting in chemotherapy patients. Another, now awaiting FDA approval, treats migraines. Rather than simply increasing serotonin levels, as Prozac does, these drugs mimic the specific effects serotonin has on cells.

LOCKS AND KEYS. It turns out that serotonin is involved in so many ailments because there's a network of slightly different receptors—the proteins that act as docking sites for the chemical on cells—all over the body. Whether serotonin causes blood vessels to constrict or directs release of a mood-altering compound depends on which receptor it binds to. For example, Dr. Bryan Roth, an associate professor at Case Western Reserve University School of Medicine in Cleveland, says that one receptor—called 5-HT_{1C}—is found in two regions of the brain that are thought to be involved in obsessive-compulsive disorders, schizophrenia, and manic depression. A drug that binds only to this receptor could have great potential for treating these problems, he says.

New insights are being gained in serotonin, which was identified in 1948 because of breakthroughs in molecular biology. These techniques let researchers pinpoint genes that control the production of serotonin receptors. Using the genes, they can churn out copies of the proteins and study their structure. They then try to design drugs that bind tightly to the receptor—as a key fits a lock—and block or enhance its effect. Some 13 serotonin receptors have now been cloned—three times the number just two

years ago. "It's this ability to pull out receptors, study them, then design drugs to fit each one that has people excited," says Hartig.

Researchers at Stanford University, McGill University in Montreal, the University of Washington, and elsewhere are trying to decipher what these proteins do. In September, some 30 scientists met in Houston to discuss such questions. More scientific

SEROTONIN: A LINK TO MANY CURES

Serotonin, a natural substance found in the body, plays a role in a wide range of maladies. Researchers have cloned at least 10 receptors—cellular docking sites—for serotonin, which are helping them design a new generation of superdrugs

Companies such as:

GLAXO	JANSSEN PHARMACEUTICA
MERCK	MARION MERRELL DOW
ELI LILLY	SYNAPTIC PHARMACEUTICAL
SMITHKLINE BEECHAM	

Are working on drugs to treat:

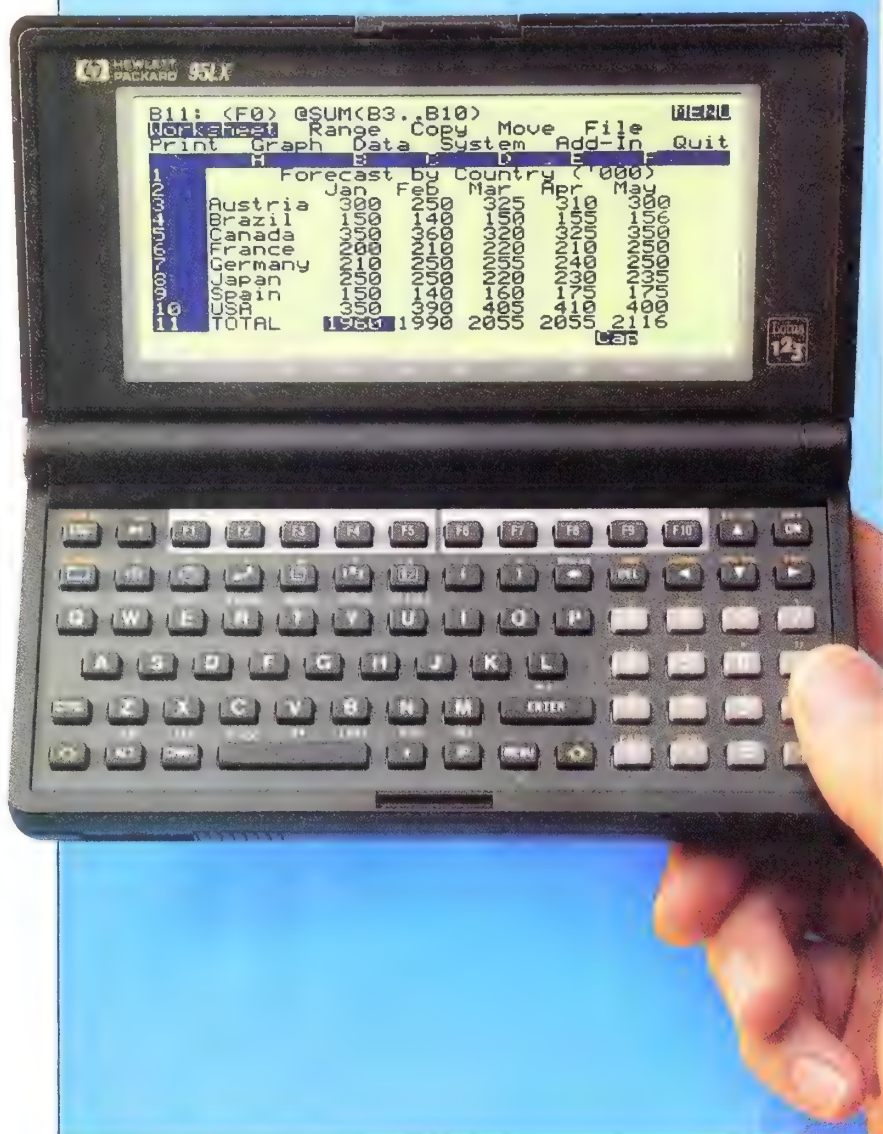
MIGRAINE HEADACHES	SCHIZOPHRENIA
CARDIOVASCULAR DISEASE	DEPRESSION
CHEMOTHERAPY-INDUCED NAUSEA	ANXIETY
OBSESSIVE-COMPULSIVE DISORDERS	ADDICTION

were presented on the topic in late October at the annual Society for Neuroscience meeting in Anaheim, Calif. In fact, "technology is moving so quickly that the clinical significance of the receptors is lagging behind," says Gary D. Tollefson, executive director of Lilly Research Laboratories. Researchers think that more than 20 serotonin receptors eventually will be located. Not only will be important in disease, says Tollefson, and it will be hard to tell which ones to ignore. Ditto for the job of designing drugs to interact with just one receptor: Some receptors "are so similar that it is almost unthinkable [for a drug] to interact with one and not the other," explains Albert Carr, Distinguished Scientist at Marion Merrell Dow Inc.

This raises the risk of unsuspected side effects. Glaxo Pharmaceuticals' migraine drug, for example, attaches to receptors on blood vessels surrounding the brain. This causes the vessels to constrict, alleviating the throbbing headache and other symptoms linked with migraines. But concern that the drug also hit receptors on other blood vessels and lead to cardiovascular problems has stalled U.S. approval, says Hett K. Shah, a drug industry analyst. **ANIMAL TESTS.** Rather than design such drugs from scratch, it's quicker, for now, to screen those on lab shelves. Take Lilly's, which has invested \$12 million in Synapse, which has cloned a collection of receptors and is helping develop serotonin antagonists for anxiety, depression, and other ills. "The one was to look at 'stuff in the toolbox they didn't know they had,'" says Synaptic CEO Kathleen P. Mullinix. In nine months, this turned up four promising serotonin candidates, some of which are now in animal tests.

Glaxo also is capitalizing on the discovery of more serotonin receptors. Ondansetron, the drug that reduces vomiting in chemotherapy patients, targets a receptor called 5-HT₃ that is found in the gut and the brain stem. So, research shows, the drug may affect receptors associated with anxiety and schizophrenia. Mike B. Tyers, director of pharmacology for Glaxo Group Research, says ondansetron or related drugs may help prevent some memory loss in Alzheimer's patients. Designing serotonin drugs is proving harder than scientists had anticipated when fewer receptors were known. Still, recent studies suggest a role for serotonin in even more disorders—aggression, suicidal tendencies, and depression. So, what's now a dilemma for researchers may eventually be a boon for patients and drugmakers both. *Naomi Freundlich in New York, John Carey in Washington and Joan Hamilton in San Francisco*

The HP 95LX. PC Power. Organizer Price.



It looks like an organizer. It's the same size. It's even about the same price. But the HP 95LX palmtop PC gives you so much more than any organizer.

You can use the HP 95LX just as you would your PC. All the features you need are built right in. MS-DOS[®], Lotus[®] 1-2-3[®] and a financial calculator. And the 512K RAM version of the HP 95LX has enough power to let you store and retrieve large amounts of data. You can copy files from your desktop computer right into your palmtop. There's even a plug-in slot to let you add optional PC applications or memory.

When you need to get organized, the HP 95LX does that, too. It comes with an appointment book, phone book and memo editor. But why just get organized when you can get PC power?

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'IT'S THE ELEPHANT AGAINST THE RATS' FOR JAPAN'S PHONE BUSINESS

The government is letting pesky newcomers gnaw away at giant NTT

Masashi Kojima's office is sparsely decorated, but the 61-year-old president of giant Nippon Telegraph & Telephone Corp. does treasure one memento. It's an autographed photo of adventure novelist Tom Clancy, pictured in combat fatigues against a bombed-out cityscape. Clancy, says Kojima, is a close friend.

Unfortunately for Kojima, his own battles don't much resemble those of Clancy's hero, Jack Ryan. While Ryan foils every nemesis from the Red Navy to Irish terrorists, Kojima is stalemated by an even more implacable opponent: the Japanese bureaucrat. And while Jack Ryan is always the good guy, it's harder to sort out right from wrong in the contest over the fate of NTT.

It's no secret that NTT is locked in mortal struggle with the Posts & Telecommunications Ministry, which once had the government-owned phone company under its wing. That changed in 1985 when NTT was set up as a separate company and the Finance Ministry announced plans to sell NTT shares to the public. With NTT moving toward independence, the postal ministry pushed to modernize the phone service by introducing American-style competition. Its goal was to break up NTT in much the way that American

NTT PRESIDENT KOJIMA SAYS HIS HANDS ARE TIED BY THE POSTAL MINISTRY



Telephone & Telegraph Co. was broken up in 1984. In 1990, under pressure from NTT's unions and equipment suppliers, the ministry agreed not to seek a break-up before 1995 and has been silent on the issue since.

Meanwhile, Kojima lingers in an uncomfortable limbo. The ministry has already opened the lucrative long-distance market to rivals, forcing NTT to lower its prices. But NTT still has huge expenses, including running the world's biggest lo-

cal phone network from its Tokyo control center. And the postal ministry hasn't yet let NTT compensate for its lost long-distance revenue by raising the price of local phone service, which is among the cheapest in the world (charts).

So NTT's profits are falling. Its market value—once \$350 billion—greater than that of IBM, General Motors, General Electric, AT&T and Exxon combined—has tumbled more than 80% from its peak in 1987. Says Kojima: "If this were an ordinary company, I'd have been forced to resign long ago." He's still in office, Kojima says, because people understand that his hands are tied. "There are constraints," he says. "I don't have 100% responsibility."

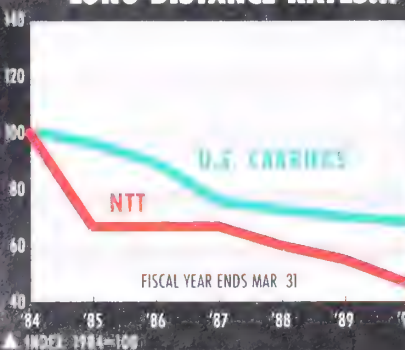
'SACRED SPACE.' Indeed, no one does. While Westerners often marvel at the close cooperation between government and industry in Japan, NTT's case is a counterexample. Authority over the phone giant is vaguely defined, and when strong interest clash, policy gridlock results. "Too many decisions are hashed out behind closed doors by special advisory panels to the postal ministry," charges Tsuruhiko Nambu, economics professor and telecommunications expert at Gakushuin University in Tokyo.

From the start, NTT's passage into

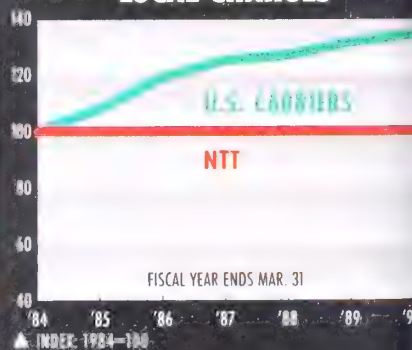
NTT'S COMPETITORS ARE SOARING...



...SO IT'S SLASHING LONG-DISTANCE RATES...



...BUT IT CAN'T RAISE LOCAL CHARGES



DATA: NIPPON TELEGRAPH & TELEPHONE CORP.

te sector has been wrenching. Since postal ministry began allowing competition in 1985, more than 1,000 telecom companies have opened shop. That includes three aggressive newcomers in the key long-distance market. By running bare-bones networks, they've been able to lure away NTT customers with discounts. NTT has responded with five price cuts but can't stop the defections. In the last fiscal year, 54% of the inter-city traffic between Tokyo, Nagoya, and Osaka went to the newcomers. Combined, the three startups will post \$4 billion in sales this year while showing tax profits of \$358 million. As for NTT's operating income this year, it could be just \$3.4 billion on a flat \$50 billion in revenue—exactly half the profit of 1987 in steady U.S. dollars.

Kojima is itching to get NTT moving, but many of his initiatives have been stymied. And by clinging to the idea that Japan needs an omnipotent NTT, Kojima is fighting against a worldwide trend toward competitive telecommunications. Echoing the warnings of AT&T's leaders before the Bell System breakup, Kojima says weakening NTT would cripple what he calls the company's "sacred space"—its world-class research and development laboratories. Moreover, he asserts that the quality of Japan's phone network would decline, even though advocates of the breakup contend that competition produced overall improvements in the U.S. and Britain. Casting around for role models, Kojima lights on Norway—a country with 1/30th of Japan's population—simply because Norwegian Telecom is a run monopoly.

With NTT's long-term fate yet to be determined by the postal ministry, for now Kojima is focusing on things that are under his control. Since becoming president in 1990, he has continued to cut jobs, which are down by 10,000 since 1985, to 248,000. NTT has had to offer premium retirement packages to those cuts, and analysts say the cost count is still too high. But NTT's powerful union won't swallow faster

NG TOUGH. Still, NTT must keep improving the Japanese network. It plans to spend \$75 billion over the next four years to finish converting its network to digital switches, and it has an even bolder scheme to spread optical fiber everywhere by the year 2015. To help pay for it, NTT wants to collect higher fees from manufacturers dependent on its patents. The burden will fall on the "family" of equipment suppliers—

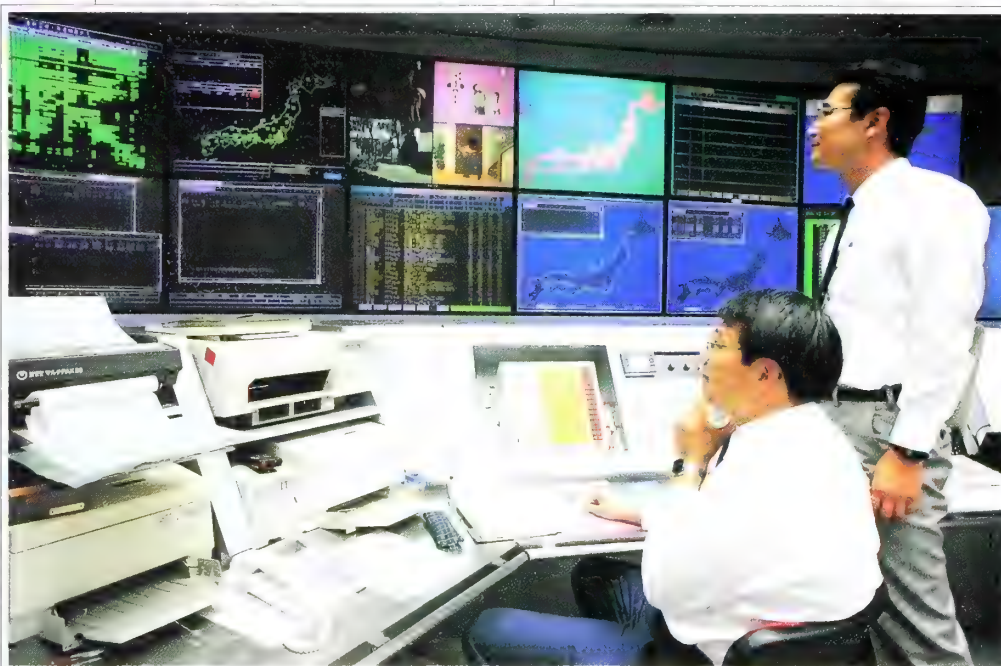
NEC, Hitachi, Fujitsu, and Oki Electric Industry—who until now have paid practically nothing for work from NTT's world-class laboratories. And last month, NTT began the international expansion that Kojima has long wanted. In its first big foray outside Japan, the company signed a memo of understanding with Thai Telephone & Telecom Co. to co-design and build 1 million local telephone circuits throughout Thailand.

Kojima is also stepping up marketing. Last month, when rival Japan Telecom Co. kicked off long-distance service in Tottori Prefecture west of Tokyo, scores of NTT employees showed up at the main train station carrying placards and distributing leaflets claiming there was little difference with NTT's rates. Competitors also say that some NTT network managers tip off their sales staff when

system, where all long-distance operations—including NTT's own—will pay for usage of NTT's monopoly local-phone network. Sometime before that, a rate increase for NTT is likely.

The trouble with this scenario, say Japanese telecommunications experts: It's too vague and open-ended for business people to base their plans on. "NTT managers want to create an efficient company," says Andrew Harrington, a specialist in Asian telecommunications with Salomon Brothers Inc. in Hong Kong. "But how can they, when no one knows what regulations they'll face in six months, or in a year?"

STOCK PICKLE. The hazy regulatory picture hasn't helped with investors, either. The 80% plunge in NTT shares from their peak in 1987 outstrips the 50% plunge in the Nikkei 225-stock average since its



NTT NETWORK CONTROL: LAST YEAR, 54% OF THE TOKYO-NAGOYA-OSAKA TRAFFIC WENT TO RIVALS

a customer is switching to another long-distance carrier so the salespeople can try to talk them out of leaving.

The new aggressiveness has incensed NTT's competitors. Tadashi Kagawa, president of Tu-Ka Cellular Tokyo Inc., laughs off NTT's warning that the "ants," such as his company, are starting to threaten the elephant. "O. K.," he says, "we're stronger. So now maybe it's the elephant against the rats."

The single most important thing that NTT could accomplish now, however, remains persuading the postal ministry to grant it higher rates for local phone service, the sector in which it claims to lose money. The ministry says NTT hasn't proved its case. In a sign of compromise, next April NTT will begin breaking out data on income from local services. A year later, Japan will probably implement an American-style access-charge

1989 peak. Some 1.7 million private investors got clobbered in NTT's stock collapse. Sanae Yanai, a graphics designer in Tokyo whose \$18,000 investment has lost half its value, compares NTT shares to *tsukemono*, a type of Japanese pickle. "You throw vegetables in a jar with a lot of salt, then stash them away for a long time. Maybe the shares will be worth something to my grandchildren."

Kojima doesn't want people comparing NTT to a jar of pickles. But his ideas for enlivening NTT seem thwarted. To escape, he retreats each summer to a cabin deep in the mountains of Hokkaido. "I don't read the papers, I don't watch TV, and I don't see any people," he says. As long as NTT and its regulators are at loggerheads, it's hard to see a way out for Kojima. Unless maybe Jack Ryan has a rescue plan.

By Neil Gross in Tokyo

JUST WHEN SEQUENT THOUGHT IT WAS SAFE . . .

The computer maker's once-cozy turf is being invaded

By all rights, Karl C. "Casey" Powell Jr. should finally feel free to relax and perhaps cruise the Oregon hills in his Ferrari or Lamborghini. Or, he could take a few days off to ferry his two teenage daughters to horse shows in his Ardern coach. After all, the chairman of Sequent Computer Systems Inc. could use some R&R after bringing the company back from the brink.

In 1991, with a sour economy and sales to Unisys Corp., its biggest customer, drying up, Sequent lost \$49 million on revenues of \$213 million and seemed headed for oblivion. But by streamlining and refocusing itself, Sequent has bounced back. It has been profitable since last December, and third-quarter sales rocketed 52% from the year before, to a record \$82 million.

LAVISH MARKETING. So why isn't Casey Powell taking it easy? Perhaps because for Sequent, which he co-founded in 1983, the Big Test has only just begun. For years, the Beaverton (Ore.) company has shared its hardware niche with a few similarly sized companies, such as Pyramid Technology Corp. The big computer guns—Digital Equipment, IBM, Hewlett-Packard—just weren't interested in making machines like Sequent's. No wonder: Sequent's multiprocessor design, based on as many as 30 PC-class microprocessors, could do all the work

of the big companies' traditional minicomputers and mainframes for a third of the price or less. But now, those same companies are racing after Sequent. Hewlett-Packard and American Telephone & Telegraph Co.'s NCR unit have both launched multiprocessor lines over the past two years, backing them with lavish marketing efforts.

IBM is working on several multiprocessor designs, too, with shipments expected to begin next year. And Sun Microsystems Inc. is about to expand its line. "We've been running into Sequent more often," says Sun Vice-President Anil P. Gadre, who expects more encounters in 1993.

In short, the cheap power of multipro-

cessors can run Oracle's software quickly, too. Says Powell: "When other people offer the same capabilities, we have to go on to something new."

For now, that something is helping mainframes dish out data to hundreds of PCs on a network. Customers such as Du Pont Co. can now copy mainframe data to their Sequents, where the firm's multiprocessing version of Novell Inc.'s NetWare software for PC networks does the rest. So far this year Sequent has sold 100 systems running NetWare, generating about \$20 million in revenues. "It's a huge opportunity," says International Data Corp. analyst John Morrell, as customers seek to enhance PC-to-mainframe links. In early 1993, software from Red Brick Systems will let many PCs pose complex questions to a large Sequent database simultaneously.

Moving downscale hardware may provide still more growth. Sequent is planning a line of so-called superservers, which employ just a few processors to anchor small PC networks. That market already includes some biggies such as IBM and Compaq Computer Corp., but Powell may again have an edge in software: Microsoft Corp. has picked Sequent multiprocessor technology for Windows NT, the advanced operating system software it is readying for 1993.

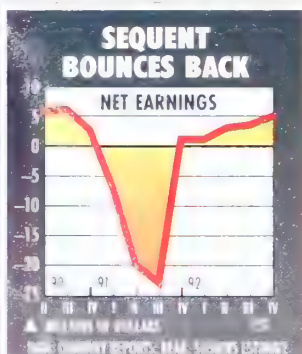
FARMING IT OUT. Still more downsizing—the managerial kind—has trimmed Sequent's costs. In the past year, Powell and Chief Operating Officer Waldo Richards, a Sequent vet, have farmed out more manufacturing, such as cabinet assembly, to help cut manufacturing and operations costs by 20%. At 4.5 times a year, inventory turns are running at twice the rate in early 1991. More important, the 143-person sales force now focuses on potentially large accounts, not every small customer that shows up. And because of a 23% staff cut in 1991, the company's revenue per employee has jumped to \$219,000, which is 68% higher than last year ago.

For now, Sequent is holding its own. The company even won a contract to supply AT&T, which is a major Pyramid reseller, with computers to help telephone companies track emergency calls. With more triumphs like that, Powell might finally get some time to relax.

By Robert D. Hof in Beaverton, Ore.



CHAIRMAN POWELL PLANS A BIG PUSH INTO PC NETWORKS



cessors is just too compelling to ignore, especially for jobs such as logging hotel reservations. Consider two of Sequent's best customers: Dollar Rent A Car and the London Stock Exchange.

Powell has no time to feel flattered by imitators. He has his hands full trying to keep Sequent one step ahead, mainly by getting important software packages rewritten to run fast on Sequent machines before other suppliers can snag them for their multiprocessors. Sequent got a big sales boost in the late 1980s by helping Oracle Corp. tune its data-base program to run extra fast on Sequents. But now, other comput-

America's Cities: The Future is Now



A New Era

Forces the U.S. to

Reverse Urban

Decline and Restore

Urban Economies

The world map in Susan Jones' sixth grade classroom is only a couple of years old, but already it's outdated. Such is the mindboggling reality of a world after the collapse of communism. Walls have come down. Boundaries have shifted and realigned. Freedom has asserted itself on a global scale.

The U.S. and the West played, and will continue to play, a key role in the struggle toward democracy around the globe. Yet today, America faces a challenge every bit as daunting as totalitarianism, a challenge that will require the same commitment of national will and resources: *the revitalization of U.S. cities.*

Today the battle is for the soul of America—the streets and neighborhoods, the homes and businesses, the people of its urban centers.

Why the focus on cities? Because for generations, America's cities have been the centers of our culture and the





powerful engines of our economic growth. Since 1960 more than 80 million people have been added to the population of U.S. cities, according to the U.S. Census Bureau. Today, urban areas are home to more than three out of four U.S. citizens.

The U.S. Conference of Mayors, the bipartisan political forum for our nation's mayors, believes that America is at a crossroads. The U.S. has a unique opportunity to redraw the map of its own national priorities.

needed to make our cities livable, economically viable, and competitive in the new world markets.

DANGER OR OPPORTUNITY?

Across the country, American cities are in crisis. Consider...

- * Every year more U.S. citizens fall below the poverty line. Today, one of four children live in poverty.

- * Crime, joblessness, inadequate health care, lack of affordable housing — all

ity of local governments to fund maintenance and repairs.

- * Many businesses are withdrawing from urban locations because they can't find the quality of life or the well-educated workers they need to prosper. With their go jobs and opportunities for thousands.

- * The withdrawal of federal dollars from cities during the '80s has crippled much needed economic development and halted thousands of public service projects. Federally-subsidized housing programs alone were slashed by 82% in the '80s.

The Chinese symbol for crisis includes two concepts: danger and opportunity. Many U.S. cities today find themselves in danger—not from an outside threat, but inner decay. The challenge now is discovering how to minimize the problems of cities that keep them from tapping into their vast potential.

Can our cities be rescued? The U.S. Conference of Mayors believes they can and they must. In forums and urban summits across the nation, the mayors have been putting forth a new urban agenda for America. The agenda calls for an unprecedented level of partnership between the public and private sectors, because both have a stake in the future of our cities and its citizens.

REEXAMINING THE FEDERAL ROLE IN CITIES

Currently, the majority of U.S. cities are experiencing severe fiscal difficulties: Over 60% reported that 1991 General Fund Expenditures would surpass revenues. During the last decade the federal share of local revenue was cut in half. And for the most part

"In the late '40s, we stopped building bombers and built Buicks. Today we have a similar opportunity to convert our economy to the benefit of our citizens. If we miss this opportunity, we will have failed and the cost will be enormous. We cannot compete in the new world if we ignore millions of our citizens."

WILLIAM ALTHAUS
Mayor of York, Pennsylvania and
President, U.S. Conference of Mayors

"In the late '40s, we stopped building bombers and built Buicks," says William Althaus, mayor of York, Pa. and president, U.S. Conference of Mayors. "Today we have a similar opportunity to convert our economy to the benefit of our citizens. If we miss this opportunity, we will have failed and the cost will be enormous. We cannot compete in the new world if we ignore millions of our citizens."

The Mayors are urging citizens at all-levels—from neighborhood councils to corporate board rooms to the Congress and White House—to join in a bold plan of action that will take us into the next century.

Now is the time to rekindle the vision and reinvigorate the political will



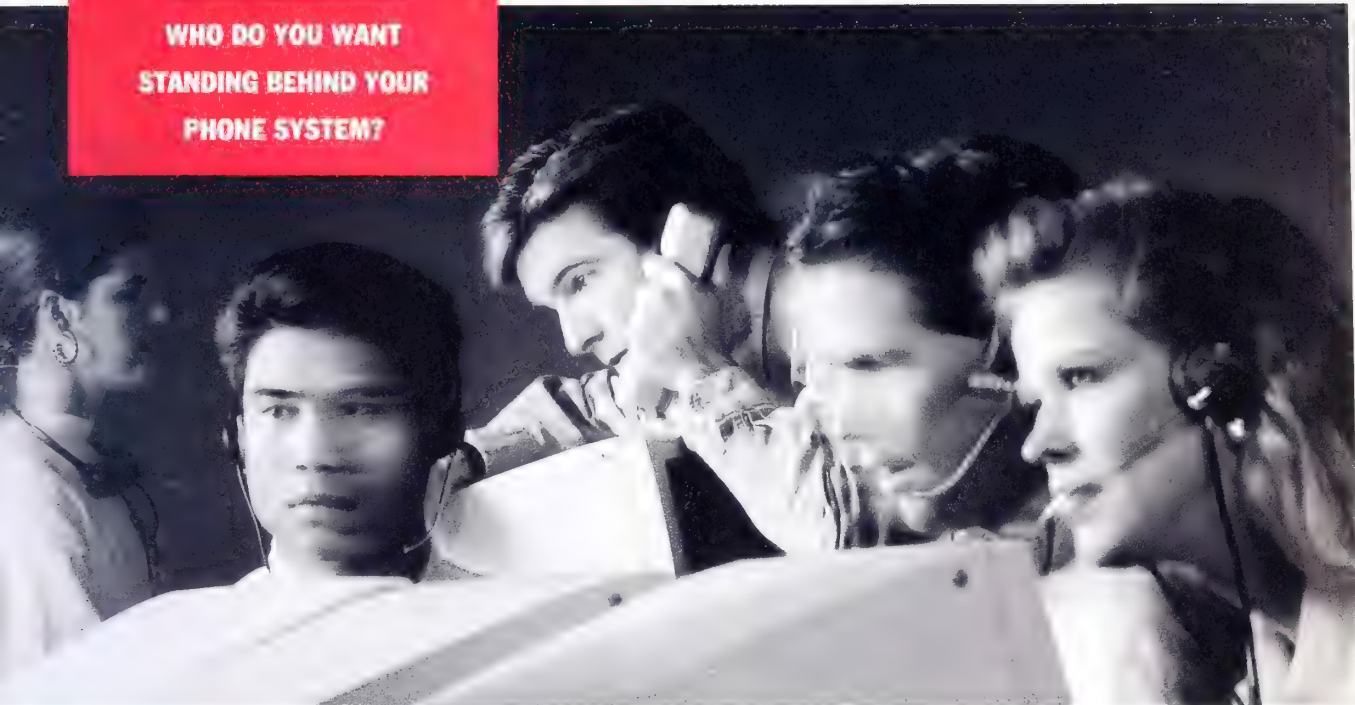
threaten the well-being of millions of Americans,

most of whom are city dwellers.

- * The infrastructure that holds cities together—mass transit, roads, utilities, communications—suffers today from decades of neglect, and from the inability

**WITH 30,000 HOT PROSPECTS
ON THE LINE EVERY DAY**

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STANDING BEHIND YOUR
PHONE SYSTEM?**



As you read this, mail-order giant DAMARK International is moving 16 camcorders, 12 garage door openers, 8 kiddie cars and now 6 more camcorders...but wait! We can't write this fast enough to keep up! Fortunately, Fujitsu's F9600™ telephone system can. Its non-blocking architecture instantly switches all calls through, at which point its ACD software routes these calls to "next available agent" to minimize waiting time. And no matter how fast DAMARK International grows – sales jumped from \$1.3 million in 1986 to \$214 million in 1991! – the F9600's modular 50- to 9600-line PBX grows right along with it. Best of all, the F9600 is ISDN-ready to ID future callers by phone number so their files can be called up on-screen before the agent comes on.

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states did not offset these losses of revenue. "The federal government has starved urban areas relative to the need," says Al Eisenberg, federal liaison at the American Institute of Architects in Washington, D.C.

Meanwhile, the cities have had to drum up new sources of revenue—or cut deeply into the very programs and services designed to regenerate their cities and enhance their economic viability. Complying with federal and state mandates also has increased costs at the local level, and the growing concentration of poor people in cities has further strained city budgets.

"The federal government's shifting of funds and responsibility down to the state level continues because of the federal deficit," says Jeffrey Rizzo of Moody's Investors Service, an organization that rates cities' creditworthiness. "The states are shifting down to the local level, which is last in the food chain. The cities must then make the hard decisions whether to cut services or raise taxes."

Through crisis management, many financially distressed cities have managed to hang on. But clearly, any long-term plan for urban revitalization will require a renewed commitment at the federal level.

"We have to get beyond thinking of our country's problems as inner city problems. We cannot escape to the suburbs. The same problems will follow us there. We are talking about national problems, and solving them will require an immediate, bold, and long-term plan at the national

level as well as specific action at the local level," says Tom Cochran, executive director, U.S. Conference of Mayors.

FORGING NEW PARTNERSHIPS

While lamenting the loss of federal dollars and demanding a renewed federal role in urban investment, some U.S. Mayors see at least a tinge of silver behind the dark cloud that befell them in the '80s.

"We lost 70% of our funding for housing during the '80s," says Jerry Abramson, mayor of Louisville, Ky. "It decimated us. Our backs were against the wall. We had no other choice than to get

creative and innovative in our approach to the problem."

The result? Three hundred low-income families recently moved into condominiums in newly renovated city buildings, financed through a public/private partnership with local Louisville banks. The project used no direct federal funds, but the federal Community Reinvestment Act provided the legislative incentive for banks to make such commitments.



"The time has come for New York City and this entire nation to make some choices about our future. Not just economic choices, but moral choices. Will we continue to let our cities spin on a downward spiral of neglect and decay, or will we — like the Europeans — recognize the powerful contributions urban centers make to our nation, and nurture those contributions?"

DAVID DINKINS
Mayor of New York

right in their own communities.

Since 1978, St. Louis has allocated \$91 million in funds leveraged by \$31 million in private development funds to create 9,000 units of housing.

In York, Pa., corporations "adopt house" in their neighborhoods, renovate them and then sell them. Local government provides the expertise and know-how for the conversion. The corporations get a return on its investment plus a cleaner, more livable neighborhood.

In similar fashion, mayors across the country are "getting creative" in how to manage their cities and finance their services. They are making tough choices about where and how to allocate limited funds. And they are advocating a new, more targeted approach to urban investment from both the public and private sectors.

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"I think city governments are the laboratories of innovation right now," says Abramson. "The private sector is stepping up and taking a role.... They're realizing that it's their fight, too."

URBAN INVESTMENT: WHAT'S IN IT FOR BUSINESS?

Since McDonald's Corporation first planted its golden arches in inner cities in the '70s, its commitment to being part of the solution to urban problems has grown along with its Big Mac sales.

At some franchises young employees earn an hour's pay for doing their school work before their shift begins. Other franchises offer bonus money for good grades. McDonald's is also well known for its hiring of disabled persons and retirees.

In like manner, Fannie Mae has expanded its efforts to provide adequate housing for more low- and middle-income home buyers. The shareholder-owned corporation works in partnership with lenders, community groups, and state and local housing agencies. Since

THE BATTLE TO MAINTAIN CITY INFRASTRUCTURE

One area ripe for private involvement is financing the costs of maintaining the structures and services that make cities run—roads, mass transit, sewers, waste removal, and telecommunications, for example.

In recent years, the federal government has moved away from its historic role of supporting infrastructure. And many cities have remained barely a step ahead of disaster in attempting to patch together decaying sewer and water systems, roads, and bridges. The result? According to an analysis by the Federal Reserve Banks of Chicago and Boston, more than half the nation's drop in productivity growth



industrialized nation's in capital investment in infrastructure as a percentage of GNP. It is no surprise that Japan, our world's leader in productivity increases, also leads the world by investing over 4% of its GNP into public infrastructure. By comparison, the United States only invests 1.1% of its GNP into public infrastructure projects."

A growing number of urban areas are privatizing some public utility services while maintaining some government oversight. There is precedent for this—for example, private rail lines for decades have run on public tracks.

In Boston several private investors found the incentives the

needed to get involved in a massive infrastructure project: a revamping of the central artery of the city's interstate system. The underground system will open up dozens of acres of new land for development. The project successfully combined local, state, and private funding.

Several office paper and equipment manufacturers are in partnership with local governments and environmental groups to solve the urban solid waste crisis (see sidebar, next page). "Offices generate tons of waste paper every year," says Suzanne Clark, of Office Imaging, Eastman Kodak. "If we recycle more paper we help government, business, and the environment."

"Infrastructure means jobs for America. Each \$1 billion of new financing for infrastructure investment creates nearly 50,000 jobs in construction, goods-producing and service-related industries."

Maynard Jackson
Mayor of Atlanta and Chairman of the Atlanta-Fulton County Stadium Authority

1987 Fannie Mae has committed to provide more than \$15 billion in financing for low-income housing. This commitment will impact more than a quarter of a million families.

In cities across the nation, businesses large and small are taking on urban issues as their own and making a difference.

can be explained by declining public sector investment in infrastructure.

"There is a fundamental link between America's economic competitiveness and its infrastructure investment," says Atlanta Mayor and Rebuild America Coalition Chair Maynard Jackson. "America ranks last among the top seven

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Harvesting the Urban Forest

There's more to sound environmental policy than curbing fluorocarbon emissions or energy conservation. Consider, for example, inner city "forests"—the reams of paper generated and tossed aside every year in our nation's offices.

Today, over 10 million tons of waste paper are discarded from offices, enough to build a wall 12 feet high from New York to Los Angeles! Unfortunately, only 15% of this paper is being collected for recycling. Most goes to landfills.

"Cities are facing a waste management crisis," says Jimmy Kemp, mayor of Meridian, Miss. "With overflowing landfills, local government and the business community must set the example by managing waste paper more resourcefully."

Thus was born in 1990 the National Office Paper Recycling Challenge. The U.S. Conference of Mayors, along with ten corporations and three other local government public interest groups, began urging corporate America to get on the recycling bandwagon. With support from William K. Reilly, administrator of the U.S. EPA, the project has challenged the nation's employers to close the loop on recycling by purchasing recycled products and collecting waste paper. Says Roger Hoffman, CFO of Green Bay Packaging: "It's simple. You're not recycling until you buy recycled products."

Many businesses are unaware of the array of recycled products they could be buying: From recycled letterhead and publication papers to tissue products and boxes, the list is extensive.

Corporate principals of the Project have taken the recycling Challenge even a step farther:

- ★ Fort Howard Corporation announced a \$160 million mill expansion that will use an additional 100,000 tons per year of office waste paper. "The Challenge's efforts to increase the collection and purchase of recycled products certainly helped us feel confident in our decision to expand," says Jeffrey Eves, vice-president of Fort Howard.

- ★ Boise Cascade Corporation recently converted two mills for the production of recycled white paper and Weyerhaeuser Company has done the same with a newspaper mill.

- ★ Green Bay Packaging, Inc. developed a new process that converts non-deinked office waste paper into liner board for corrugated boxes. Xerox and Lexmark International both package their products in this new recycled container.

- ★ Xerox now offers all of its customers recycled paper for use in its copiers.

- ★ Canon U.S.A., Inc. is supporting toner cartridge recycling programs across the U.S.

- ★ Lexmark International has significantly increased employee participation in its office paper recycling program through communication and awareness. "We have a corporate vision that emphasizes a strong commitment to protecting the environment," says Lexmark Chairman and CEO Marvin Mann. "Our employees recognize this as a challenge to make a positive impact and they fully support this ongoing effort."

- ★ Waste Management of North America provides its customers with recycled products to encourage them to "buy recycled." Says Waste Management's Vice-President Dick Haupt, "We all get warm fuzzies by separating out our recyclables. But that isn't the end. The success or failure of recycling will depend upon the markets that can be created for recycled products."

The Project has worked for two years to develop a strategy to make office paper recycling work in the U.S. With a goal of tripling office paper recycling by 1995, the Project is out to make recycling part of everyone's business.

To accept the National Office Paper Recycling Challenge, and receive a complimentary guidebook, call (202) 223-3089.

JOINING HANDS WITH THE SUBURBS

skirmishes sometimes erupt between cities and their surrounding suburban neighbors as both try to attract people and business investment. Some analysts have even announced the obsolescence of cities and the ascendance of the suburbs. But smart city and suburban leaders recognize that their fortunes are intricately intertwined.

"We need to begin thinking about how our efforts translate at the family level. Making our neighborhoods clean and our streets safe — now those are the kinds of family values I can buy into."

BOB LANIER
Mayor of Houston



"Healthy cities are essential for strong regional economies," says Flynn, mayor of Boston. "City dwellers and suburbanites share a common fate."

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Canadian forest products company Tembec could have located the nation's most advanced paper recycling plant in any major city. It chose a vacant paper mill in Boston over its Patriot Paper Corporation because it was the paper Boston offered—\$37.5 million in tax-exempt industrial revenue bond financing to take the project off the drawing board and get 200 union paperworkers back to work harvesting the urban forest.



309 days.

Last May, Genzyme Corporation, the largest biotech company in Massachusetts, announced that it would build an \$85 million biopharmaceutical production facility somewhere...but not in the Bay State.

309 days later, Genzyme broke ground...in Boston, swayed by an irresistible package of incentives, the chance to site a state-of-the-art biopharmaceutical manufacturing plant in America's medical and technological nerve center, and the way Boston Mayor Ray Flynn's administration takes a scalpel to red tape.

Boston's Economic Development and Industrial Corporation's Executive Director, DONALD A. GILLIS, will be happy to talk to you about why Boston is America's most promising city for business development, relocation, expansion and investment. Call 1-800-255-3342, or write EDIC, 43 Hawkins Street, Boston MA 02114.

EDIC/Boston

RAYMOND L. FLYNN, Mayor of Boston
DONALD A. GILLIS, Executive Director



Recognition of that common fate motivated Louisville, Ky., and its surrounding counties (several in the adjacent state of Indiana) to form a unique public/public partnership to attract business investment and new jobs.

Every worker in the city of Louisville and the county outside the city limits pays a 1.5% occupation tax. The revenue is shared by the city and the county. In exchange, the city has agreed not to annex any more county land for 12 years.

The agreement effectively eliminated competition between the city and county. With the economic development departments merged, the region adopted a team approach to business attraction. Then, the private sector got into the act, funding the lion's share of the Greater Louisville Economic Development Partnership whose sole purpose is to attract business to the community.

"You can't be a suburb of nowhere," says Abramson. "The city is the heart of a community. If the heart dies, then the fingers and toes will die, too."

NO STRINGS ATTACHED

The Mayors are in agreement that federal dollars will go farther if cities are allowed to spend the funds as they see fit. "The way it is now it's like we're offered a bottle of castor oil, some aspirin and an artificial leg," says Bob Lanier, mayor of Houston. "You don't need an artificial leg, but sometimes you go ahead and get one just in case you might need it in the future. The best thing is for the federal government to take the strings off and send us the cash. That would increase cost effectiveness 100% at the local level."

REAL FAMILY VALUES

Eventually, all talk of revitalizing cities must return to the individual human level. Better education and job training is a critical part of the reinvestment needed in our cities. For businesses, the bottom line is obvious. Without stable, trained workers,

these youngsters was half that of those not in the program.

"My pitch to businesses is that you either pay now or pay later," says Abramson. "We need all the graduates from our high schools to fill the jobs of the future. The private sector needs to know it's their fight, too."

"If we had the federal dollars of the '70s and the private sector involvement of the '80s and '90s, we could eliminate many of our city's problems."

TERRY ABRAMSON
*Mayor of Louisville, Kentucky
and Vice-President,
U.S. Conference of Mayors*

their future financial prospects are in jeopardy.

"In a constantly changing global economy, our people are the only lasting advantage we have," says David Dinkins, mayor of New York City. "Those (companies) that choose to invest here do so not out of patriotism—more and more, they're not even American companies. They invest here because the people they need are here."

A number of cities have embarked on ambitious public/private projects designed to make today's students into tomorrow's trained workers. In Louisville, local businesses with some government funding took under their wing some 1,600 youngsters who were at risk of dropping out of school. The program provided mentors, tutors, on-the-job training, and special counselors in the high school. The drop-out rate among



Revitalizing our cities—from repairing streets and sewers to bridges to providing adequate housing to creating more well-paying jobs ultimately strengthens our nation's families. "We need to begin thinking about how our efforts translate at the family level," says Lanier. "Making neighborhoods clean and our streets safe—now those are the kinds of family values I can buy into."

*Written by KELSEY MENTHAN
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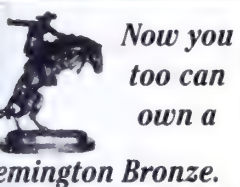
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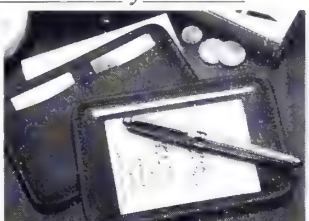
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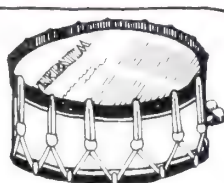
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CAMCORDERS: CATCHING THE LATEST ACTION

The video camera has come a long way from the shoulder-bruising behemoths that only parents with small children could love. Today's diminutive models are lightweight gizmos whose features are improving faster than any product since the desktop computer. TV news crews are even using the same models consumers buy.

The key to camcorder shop-

with newer compact VHS-C models or 8mm tape systems pioneered by Sony. VHS-C tapes will pop into your VCR with the aid of an adapter, but you can also play tapes by plugging the camcorder directly into a TV set.

For my money, nothing beats 8mm camcorders. One 8mm tape records up to two hours vs. 30 minutes for most VHS-C cameras, and it has better sound quality. Whichever type you choose, consider getting the "high-band" versions, such as Super VHS, H-VHS, Hi8, or Hi-band 8mm. The improved picture

put the image-stabilizing feature only on its semiprofessional versions, such as the \$2,999 L1, the Hi8 camera CNN took to the Persian Gulf.

Other makers offer digital image stabilization. This approach, which uses software technology, saves power and battery life but sacrifices some image quality. JVC, Panasonic, and Hitachi offer it on several VHS and 8mm cameras. In its \$1,800 VM-H39A, Hitachi compensates for image-quality loss by using larger CCD chips, the electronic circuits that actually capture the image.

If reaching for the lightest, smallest camera is your priority, choose 8mm. Most VHS-C or 8mm camcorders weigh about two pounds not including the battery, but the bantam-weight competition increases almost daily. Canon offers the UC1 (\$1,799) 8mm

camera, and the UCS2 \$1,699 high-band version, just 1.2 pounds. Hitachi's Hi-band VM-H39A weighs in at 1.3 pounds. Sony's smallest Hi8 is the TR-200 at 1.4 pounds and \$1,600. That also comes with a separate docking station that plugs into the TV. You can then simultaneously play back your video and recharge the battery. **SLOW FADE.** If simplifying your bag, try an automount camera. Many pick the Canon L1 for its focus, shutter size, and so on. When you make a simple selection, such as a sports camcorder to catch quick action, this category are Sony's TR-101 models and Fisher's FVC-100. Beyond that, the differ-

SONY TR-101

FEATURES: Hi8; Steady Shot technology steadies shaky image
PRICE: \$1,800



quality is worth the extra \$100 or \$200.

ENERGY SAVER. One of the most popular cameras has been Sony's TR-81, a Hi8 model that fits snugly in one hand for \$1,400. But this summer, Sony outdid itself with the TR-101, almost identical in appearance except for a larger lens. The real innovation of the TR-101, which lists for \$1,800, is its ability to steady the image even when the hand holding the camera is shaky. Called Steady Shot, it's based on technology Sony licensed from Canon. Tiny sensors measure the camera's shake and actually bend a flexible lens back and forth to keep the image centered. Canon, for some reason, has

SHARP VL-MX7U TWINCAM

FEATURES: Hi8; uses dual lenses to create window images
PRICE: \$1,449



CANON L1

FEATURES: Hi8; can add special effects such as titles and close-ups
PRICE: \$2,999



ping in deciding which features are important to you and how much you want to spend. Be aware that list prices never apply: If the camera isn't already on sale, you can usually negotiate with the dealer. The weekend videographer can find a good, older-model camera for \$500 and a superb compact for \$800. The most advanced gadgetry will run around \$1,500.

First, decide what video format you want. The full-size VHS is convenient because the tapes pop directly into your VCR. But the cameras are large and heavy compared

en a useful feature and
mick is largely a mat-
taste. Interested in wa-
orts? You can drop Hi-
8mm VM-SP1A into a
Special effects? The
L1. JVC's compact VHS
7PRO, Canon's UCS3,
ony's V-Series cameras
ld titles, instant close-
dissolves, and freeze
s. Think you'll need dif-
fenses? Unscrew the

front lens from JVC's GR-SZ1
and you're left with an ultra
wide-angle camera. Sharp's
Twincams come with super
wide-angle and zoom lenses
built in, and even let you
shoot through both at once,
for an image within an image.
A few cameras have color
viewfinders, but Lancelot
Braithwaite, technical editor
for *Video Magazine*, warns
that it may be harder to tell

if you're in focus with these
systems. Sharp's VL-HL100U
ViewCam comes with a flat-
panel viewfinder, so you can
hold the camera over a crowd
and see what you're filming.

One more note: Many man-
ufacturers sell their cameras
to other companies, which
market them under their own
names. Sony sells to Ricoh,
Nikon, and Yashica, while
Panasonic makes cameras for

Quasar, and JVC for Minolta.
You can find out the equiva-
lents by checking video mag-
azines or *Consumer Reports
Buying Guide*. When deciding
between clones, you'll want
to get the best combination
of price and warranty. But
think twice about paying ex-
tra for one model just because
it has a longer warranty. Re-
tailers admit that camcorders
rarely break. *Richard Brandt*

personal computer
teaching you to *parler*
français or *hablar es-*
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notes in grammar and usage,
mostly in English, along with
more than 100 grammar drills.
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tly when you type a
wrong answer.

Both HyperGlut language

that comes with a micro-
phone, you'll be able to re-
cord your responses on the
Mac and compare them with
the program's sound clips. For
older machines, you'll need to
add a \$100 sound board

For those who want extra



LANGUAGE LESSONS ON YOUR PC

Program/Company	List price	Description
BERLITZ THINK AND TALK SERIES/HyperGlut	\$199.00	Learn to speak and read through total immersion method
LEARN TO SPEAK/HyperGlut	99.00	Instruction with emphasis on grammar
VOCABULEARN/Penton	59.95	Vocabulary drills, in three levels
LANGUAGE ASSISTANT/MicroTac	99.95	Translates words and sentences to and from English

DATA BW

courses require a CD-ROM
drive for your computer—a
\$300 to \$500 investment—
which lets the program select
and play recorded segments.
If you're running the pro-
grams on a newer Macintosh

practice in certain skills,
there's a wide range of soft-
ware available. Penton Over-
seas in Carlsbad, Calif., offers
the VocabuLearn series.
Available in three levels of
difficulty, they run you

through flash-card-like drills.
Each level covers some 1,500
words and phrases, display-
ing them one by one in either
English or a foreign lan-
guage—your choice. You can
randomize the word order, ad-
just the time you're given to
type in the right translation,
and skip words you no longer
need to practice.

Penton also produces
graphical software for the
Mac called Picture It! These
\$69.95 programs can display
more than 500 drawings ac-
companied by a recording of
the corresponding word.

QUICK TRANSLATION. Hyper-
Glut, meanwhile, offers Pro-
nunciation Tutor, Tense Tu-
tor, and Word Torture. The
latter, at \$60, can drill you in
1,600 or more vocabulary
words. You can add your own
words, too. HyperGlut's Read-
ing Lab series helps you
through foreign short stories.
Click on a puzzling word in
Guy de Maupassant's *The
Necklace*, for example, and the
program translates. When fin-
ished, test your comprehen-
sion with a series of true/false
questions.

The PC can be put to work
as a translator, too, but only
in a limited way. MicroTac
Software's Spanish, French,
German, and Italian Assis-
tants translate your sentences
to or from English. But don't
expect polished prose: Most
translation programs are de-
signed to handle business doc-
uments containing few id-
iomatic phrases.

If you don't have time for
regular language lessons, a
computer tutor may be your
next-best choice. Ultimately,
it's the most patient—albeit
mindless—drillmaster you
could ask for. *John Verity*

Smart Money

TAKING STOCK OF BANK MUTUAL FUNDS

After years of being bombarded with ads, most people know the names of the big mutual-fund houses: Dreyfus, Fidelity, Vanguard, and so on. Less familiar are the growing ranks of bank "house-brand" funds. More than 100 banks now hold \$157 billion in 851 proprietary funds. With many banks aggressively marketing their funds, how do they stack up against the more established non-bank players?

Bank funds tend to cluster around the median of performance for fund categories, says Geoffrey Bobroff of Lipper Analytical Services. Banks may operate with "more of a trust-de-

39.90% average for all such mutual funds.

Most banks sell their own funds alongside those of traditional fund providers. If such funds have a load, they cost no more to buy in a bank than from a broker or the sponsor. But if the fund is no-load, a bank may take a transaction fee and a small percentage of assets. Buying from the sponsor is cheaper.

CONVENIENT. While loads are trending down or being eliminated by the traditional fund families, few banks offer no-load funds. Loads on bank funds are usually 4% to 5%. Among the few bank no-load fund families are the Laurel Fund family offered by Mellon Bank and Fleet

SOME OF BANKING'S BEST

Fund name/Bank	3 yr. total return*	1 yr. total return*
VISTA GROWTH & INCOME/ CHASE MANHATTAN	78.91%	12.92%
WESTCORE: BOND PLUS/ FIRST INTERSTATE	39.19	12.66
THOROUGHbred: FIXED INCOME/ FIRST NATIONAL BANK OF LOUISVILLE	36.92	12.28

*As of Sept. 30, 1992

DATA: LIPPER ANALYTICAL SERVICES INC.

partment philosophy of managing money rather than hitting home runs or a 'shoot the lights out' concept," he says.

There are some notable and aggressive standouts, however. In a list of the 25 best-performing equity funds for the five-year period ending Sept. 30, Chase Manhattan's \$136 million Vista Growth & Income Fund held the top spot, with a 29.7% average annual return. The \$37 million Vista Capital Growth Fund grabbed second place, averaging about 23.4% a year. Bank of America's Pacific Horizon Aggressive Growth Fund is another star, up 62.5% over five years, compared with the

Financial's Galaxy Funds.

Banks use convenience as a selling point. Citibank links its \$2.7 billion family of Landmark funds to other accounts, so customers can buy, sell, or exchange funds through Citi's automatic-teller machines. At Chase, money in a Vista fund counts toward the balance required for waived fees on checking accounts.

However convenient, most bank funds lack a track record. While banks may capitalize on a reputation for trust, their funds aren't covered by deposit insurance and should be approached like any fairly new investment option—with healthy caution. *Suzanne Woolley*



SURPRISINGLY POWERFUL AND ROOMY: THE '93 ALTIMA GXE

Autos

A STYLISH SEDAN —SANS STICKER SHOCK

When details about Nissan's new Altima started to leak out last spring, it seemed the company's best shot at the fiercely competitive family-sedan market was a bit off the mark. Unlike Ford's Taurus and Toyota's Camry, the Altima would have no V-6 version. The styling was deemed too controversial for a segment led by Honda's conservative Accord. And the car appeared small for its class.

But Nissan saved the most important detail for last: the price. The company figured recession-weary consumers were searching for good value. And at an eye-opening \$12,999 for the base model, the Altima ended up in the thick of the competition.

It turns out the four-cylinder engine grinds out more horsepower than Ford's entry-level V-6. Zero-to-60 acceleration has been tested at 8.0 seconds, just shy of that of the V-6 Camry, whose sticker starts at \$4,000 more. And while the car is shorter than its competitors, appearances can be deceiving. Designers at Nissan's San Diego studios have pulled off a stunning bit of *trompe l'oeil*.

They started with a roomy cabin and blended the trunk and hood space around that. The result is exceptionally generous headroom—even with an optional sunroof—and ample legroom for six-footers

in back. The car, like the cord, is narrower than Taurus and Camry, which means that three adults in rear seat is a tighter squeeze. But luggage space, seemingly diminished by the car's usual downward-sloping tail line, is plentiful.

BOTHERSOME BELTS. The Altima's interior ranks with the best of the Japanese carmakers, with simple, well-laid audio and climate controls, an uncluttered instrument panel with white-on-black dials. Imitation wood trim and upscale models is underdressed, and the front seats offer excellent lateral and lumbar support. The car comes with a driver's airbag. The gaffe: those annoying, mismatched seatbelts.

Nissan expects most buyers to opt for the step-up model, which starts at \$14,024. It'll add an optional package of air-conditioning, cruise control, and a speaker audio system for \$1,000 more. Still, that's \$1,500 less than a similar Ford, or \$2,000 off a four-door Camry. Including features as antilock brakes, sunroof, compact-disk player, and leather upholstery, drive the sticker to \$20,000.

That's a bargain for features usually found on luxury cars. And the Altima is truly a bargain among family sedans. *Larry Aronson*

To build the country's best educated work force, you have to start at the beginning.



you want to compete in the 21st century, you're going to have to know the language. And the language isn't always be English. That's why the public school system in Fairfax County offers language immersion programs in Japanese, Spanish and French. The goal is to have students fluent by junior high. By adulthood, more competitive in world trade. Forward thinking programs like these are why the tenth largest

public school system in the nation is also one of the nation's best. Mean SAT scores for Fairfax County students are 75 points higher than national averages. Nine out of ten graduating seniors plan to go on to some form of higher education. The Thomas Jefferson High School for Science and Technology leads the nation in numbers of National Merit Semifinalists.

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Faithful readers of this section may remember a rather touchy-feely piece on hypnotism that ran about 18 months ago. I, the subject, was supposed to go into trances and kick my 23-year smoking habit. I went into trances. I did not kick the habit.

This summer, my disgusted editor ordered me to get a prescription for a nicotine patch. I'm wearing one now, on my left deltoid. It looks like an oversize Band-Aid, except "nicotine/21 MG/24 HR" is printed on it in brown block type. I put on a fresh one every day. Choosing a new site isn't as stimulating as my morning cigarette used to be, but I try to enjoy the ritual.

Nicotine patches hit the drugstores with a bang in December, 1991. Initially, so many smokers tried them that manufacturers couldn't keep up with demand. Consumer fervor cooled last spring, when Sturdy Memorial Hospital in Attleboro, Mass., reported treating five patch-wearers for heart attacks: They smoked while wearing their patches, and nicotine overdose pushed their blood pressure dangerously high. Subsequently, addicts found that using patches didn't detox them overnight. "People need to understand that slapping a patch on your arm is not a solution," says Jerie Jordan, editor of the American Cancer Society's *World Smoking & Health* magazine.

BAD DREAMS. But these sticky little things help a lot. The four types currently on the market all work much the same way: They deliver nicotine, the addictive substance in cigarettes, to the bloodstream transdermally, while the wearer learns to live smoke-free. A smoker's life is a series of peaks and

Health

CONFESSIONS OF A NICOTINE-PATCH WEARER

valleys, controlled by the number of cigarettes smoked. The patch smooths these out, eliminating the acute physical craving that follows a nicotine "fast."

Ciba-Geigy's Habitrol (the one I use) and Marion Merrell Dow's Nicoderm are vir-

drawal from 22 mg of nicotine a day to 11 mg after several weeks. A month's supply of patches costs from \$123 for 30 21-mg Habitrols to \$90 for 11-mg ProSteps.

The most widely reported side effects are skin irritation and sleep disturbances rang-

other story. My dream marathons of subconscious violence and sexual misadventure, from which I always wake up exhausted. In part to a such problems, Warner introduced Nicoderm patch that's worn only the day. The drawback, of course, is that heavy smokers waking up after a nicotine fast are more likely to cheat, as it takes a matter of hours for a fresh patch to begin drug delivery.

NO FOOLING. Smoking cessation experts stress that nicotine patches are most effective when supplemented by behavior modification therapy or a help program. A nicotine patch is worthless if used incorrectly. Wearing one at work because colleagues go ballistic at a whiff of tobacco, only to strip it off the evening, won't help. "It's like any prescription medication; you shouldn't fool around with it," says Hildy Dillon, manager of the American Cancer Assn.'s Smoking or Quitting program.

I should know. A nicotine patch slipped off my skin during a high-energy rock 'n' roll concert. I was smoking again. Then, I have cheated on and off the patch, guiltily sneaking smokes depending on my level of sanity. When my editor reads this, he'll probably make me write a fictional story on liquid nicotine.

But I haven't lost the battle against my addiction. "Most smokers have to quit at least two or three times before they actually succeed," says Hildy Dillon. Each relapse, experts tell me, is part of the quitting process. If you could stay in a trance, it's all over. *Joan*



tually identical. Worn round the clock, they come in three dosages and are designed to wean heavy smokers gradually, over two to three months. American Cyanamid's ProStep, also a 24-hour patch, comes in just two dosages, requiring a fairly sharp with-

ing from insomnia to nightmares. Many patch users report a slight tingling or itching sensation when they first apply a patch to virgin territory, but unless you have unusually sensitive skin, these symptoms subside quickly.

Sleep disturbances are an-

Worth Noting

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■ **LEGAL LIBRARY.** Need a prenuptial agreement, living will, or any of 28 other legal docu-

ments? Bloc Publishing's *Personal Law Firm* software prints out personalized forms.

■ **TAXING TAKEOUT.** The Internal Revenue Service ruled that hardship withdrawals from tax-deferred retirement

plans are subject to 20% withholding as of Jan. 1. You can borrow without the withholding if you buy a primary residence, the loans are payable within five years, or you meet other limits.

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HYATT

GRAND CHAMPIONS

A HYATT RESORT

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Xerox 48, 101

Y

Yashica 130

Z

Zenith Electronics 52

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October 13, 1992

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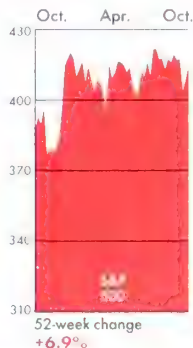
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Investment Figures of the Week

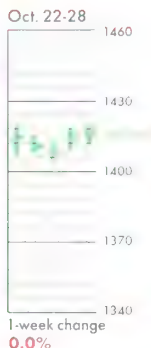
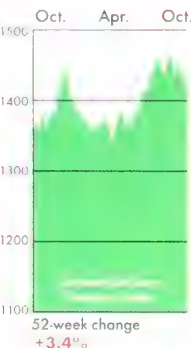
CURRENCY

showed amazing strength in the wake of continued weakness in the Japanese economy and the credit moratorium as well as the uncertainties surrounding the upcoming election. The Dow Jones industrial average rose 100 points for the week, despite a sell-off in IBM. Toronto's S&P 500 mirrored their third-biggest increase of the year on the aftermath of the new Canadian constitution. But the Nikkei stalled, and these stocks could well rise again.

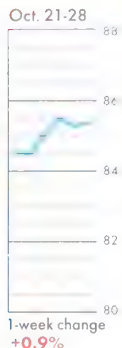
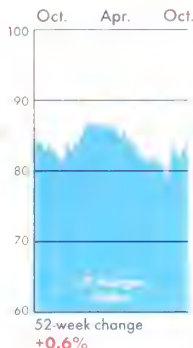
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	Week	% change 52-week
DOW JONES INDUSTRIALS	3251.4	2.0	5.8
DOW JONES COMPANIES (Russell 1000)	222.9	1.0	7.7
DOW JONES COMPANIES (Russell 2000)	197.8	1.2	7.9
DOW JONES COMPANIES (Russell 3000)	237.3	1.0	7.7

FINANCIAL STOCKS

	Latest	Week	% change (local currency) 52-week
FINANCIAL TIMES 100	2650.4	0.2	2.8
Nikkei Index	17,068.4	-0.4	-31.7
TSE Composite	3334.7	2.5	-4.7

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.01%	2.97%	4.96%
30-YEAR TREASURY BOND YIELD	7.61%	7.61%	7.90%
S&P 500 DIVIDEND YIELD	3.02%	3.04%	3.14%
S&P 500 PRICE/EARNINGS RATIO	22.4	21.8	21.6

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	414.4	414.1	Positive
Stocks above 26-week moving average	42.7%	41.8%	Neutral
Speculative sentiment: Put/call ratio	0.44	0.44	Positive
Insider sentiment: Vickers sell/buy ratio	1.73	1.82	Positive

INDUSTRY GROUPS

WEEK LEADERS

	4-week	52-week	Strongest stock in group	4-week	52-week	Price
BUILDING	13.3	41.7	CENTEX	15.4	49.5	28 1/8
COMMUNICATIONS EQUIPMENT	13.2	-0.2	DSC COMMUNICATIONS	36.6	234.2	15 7/8
TRANSPORTATION SERVICES	13.1	22.4	FEDERAL EXPRESS	23.6	20.7	45 1/8
MARKET AUTO PARTS	11.3	37.5	SPX	31.5	73.4	20 3/8
RETAIL STORES	10.3	26.7	NORDSTROM	18.8	2.3	33 1/4

WEEK LAGGARDS

	4-week	52-week	Weakest stock in group	4-week	52-week	Price
COMPUTER SYSTEMS	-12.9	-26.4	IBM	-20.5	-32.9	65 1/4
CO	-9.7	10.0	AMERICAN BRANDS	-11.1	4.3	42
MINING	-7.6	-9.7	ECHO BAY MINES	-15.4	-33.3	5 1/2
\$	-5.9	-7.5	INCO	-11.3	-32.9	21 1/8
CASTING	-5.7	10.8	COMCAST	-10.3	-12.4	14 1/8

MUTUAL FUNDS

	%	LAGGARDS	%
4-week total return		4-week total return	
FIDELITY TECHNOLOGY A	11.8	UNITED SERVICES GOLD SHARES	-10.3
BEAR SPECIAL EQUITIES	11.0	MONITREND GOLD	-8.7
CE TECHNOLOGY	9.9	EQUITY STRATEGIES	-8.6
52-week total return		52-week total return	
ARK	49.4	LEXINGTON STRATEGIC INVESTMENTS	-57.3
Y SELECT SAVINGS & LOAN	48.6	UNITED SERVICES GOLD SHARES	-49.6
Y SELECT REGIONAL BANKS	41.8	G.T. JAPAN GROWTH	-32.1



RELATIVE PORTFOLIOS

	Treasury bonds	U.S. stocks	Money market fund	Gold	Foreign stocks
Accounts as of the present					
\$10,000					
one year ago					
portfolio					
es indicate					
total returns					
	\$11,377	\$11,012	\$10,318	\$9,472	\$9,337
	+0.36%	+0.72%	+0.05%	111%	+0.10%

is page are as of market close Wednesday, October 28, 1992, unless otherwise indicated. ps include S&P 500 companies only, performance and share prices are as of market close

October 27. Mutual fund returns are as of October 23. Relative portfolios are valued as of October 27. A more detailed explanation of this page is available on request

WHAT'S BAD FOR GENERAL MOTORS...

It's not as though the problems that prompted the Oct. 26 resignation under fire of General Motors Chairman and Chief Executive Officer Robert C. Stempel are anything new. The giant carmaker has lost \$12 billion over the past two years in its North American operations. But when Stempel took over the top job on Aug. 1, 1990, the giant that had long dominated the U.S. auto industry was already in a pickle. The problems that beset the auto maker have been clear for years and have been cussed and discussed by many observers—ourselves included, in a Mar. 16, 1987, cover story.

In the intervening years, GM management and its board of directors laid the blame all over the place—except on themselves. It was Washington's fault for restrictive fuel standards and anti-pollution regulations. It was the fault of organized labor for digging in its heels to protect jobs. It was Japan's fault for unfairly pricing cars to gain a big chunk of GM's market share. There was a grain of truth in some of these charges, but the fact is that the real cause of GM's woes has been the mistakes of its own management. And they have been whoppers:

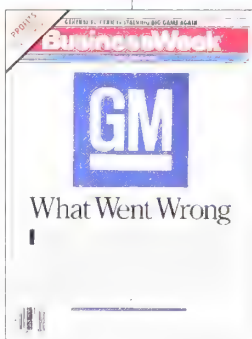
■ **Misguided philosophy.** In the 1980s, Ford, followed by Chrysler, embraced on the shop floor Japanese-style teamwork systems that gave workers more decision-making power over their jobs. These techniques brought about substantial improvements in quality and productivity and helped make Ford and Chrysler competitive with Japanese rivals. But GM, with its hidebound managerial attitude, instead poured more than \$60 billion into automation. When it belatedly tried teamwork systems—especially with Saturn—it at least matched the performance of its competitors. Perversely, General Motors management has been slow to adopt the

Saturn example at its other assembly plants in the U.S. ■ **Misguided diversification.** In the early 1980s, on the watch of then-Chairman and CEO Roger B. Smith, GM went on an acquisition binge in pursuit of diversification. The company coughed up over \$8 billion to buy Hughes Aircraft and Electronic Data Systems. While both are contributing to profits at the sorely strapped GM—which had to borrow \$6 billion on Wall Street since the beginning of 1991, partly to cover operating costs—heavy auto losses are soaking up much of the money, which could have been better used in the core business. Those heavy losses in the auto business reflect, among other things, management's failure to cut costs.

■ **Misguided product development.** Everyone knows GM can produce terrific cars. Look at Saturn, at the new Cadillac Seville, at the Buick Park Avenue, at GM's excellent product line in Europe. But for every plum, there are too many lemons. The once-proud Chevrolet Motor Division badly needs new models, and its restyled price four-door sedan has been reduced to an industry joke. And Chevrolet's Lumina has proven to be a strong rival to Chrysler's LH or Ford's revamped Taurus.

All of these problems were the result of the inflexible mind-set of GM's management. And the board must accept its share of the blame. Ironically, Stempel was a paragon of flexibility, while Smith—the embodiment of the old, rigid way—still sits on the board that made Stempel the goat.

Let's hope that the new CEO, whoever it is, gets on with the job of restoring GM. Since one out of every seven jobs in America stems from the auto industry, this is an assignment critical to the nation's health.



MAR. 16, 1987

OH, CANADA

The U.S. has been blessed by sharing its longest border with Canada, our staunch ally and largest trading partner. And since 1989, when the U.S.-Canada Free Trade Agreement took effect, it has been our partner in the effort to make North America a stronger competitor against Japan Inc. and Europe.

But suddenly, Americans have reason to worry about Canada's future. On Oct. 26, Canadians rejected a sweeping series of constitutional changes aimed at resolving grievances—notably those of French-speaking Quebec—threatening to tear Canada apart (page 58). The deal had been endorsed by the three major national political parties, plus virtually the entire business Establishment. Its rejection represents a stunning repudiation of Canada's elite and is a huge step back for Canada.

The vote is also troubling news for U.S. business. Prime Minister Brian Mulroney, a vigorous champion of free trade,

will now be seen as a lame duck. That will embolden many Canadian critics of free trade and of the North American Free Trade Agreement (NAFTA). Their opposition is certain to fuel trade tensions with the U.S. and could lead to Canadian rejection of NAFTA. Because free trade is so vital to the future of this continent, the U.S. should strive to be especially sensitive to Canadian concerns in the months ahead with the aim of keeping Canada on board.

Longer term, this vote also increases the chances that Canadian confederation will unravel. Canada remains a united country, but separatists in Quebec are vowing to start their campaign for independence. While the French-speaking Quebecois have some legitimate concerns, secession would be a recipe for economic disaster that would sharply reduce Canada's role on the world stage. The Canadian "no" vote was unfortunate. But that's no reason to make what would be a far graver mistake.

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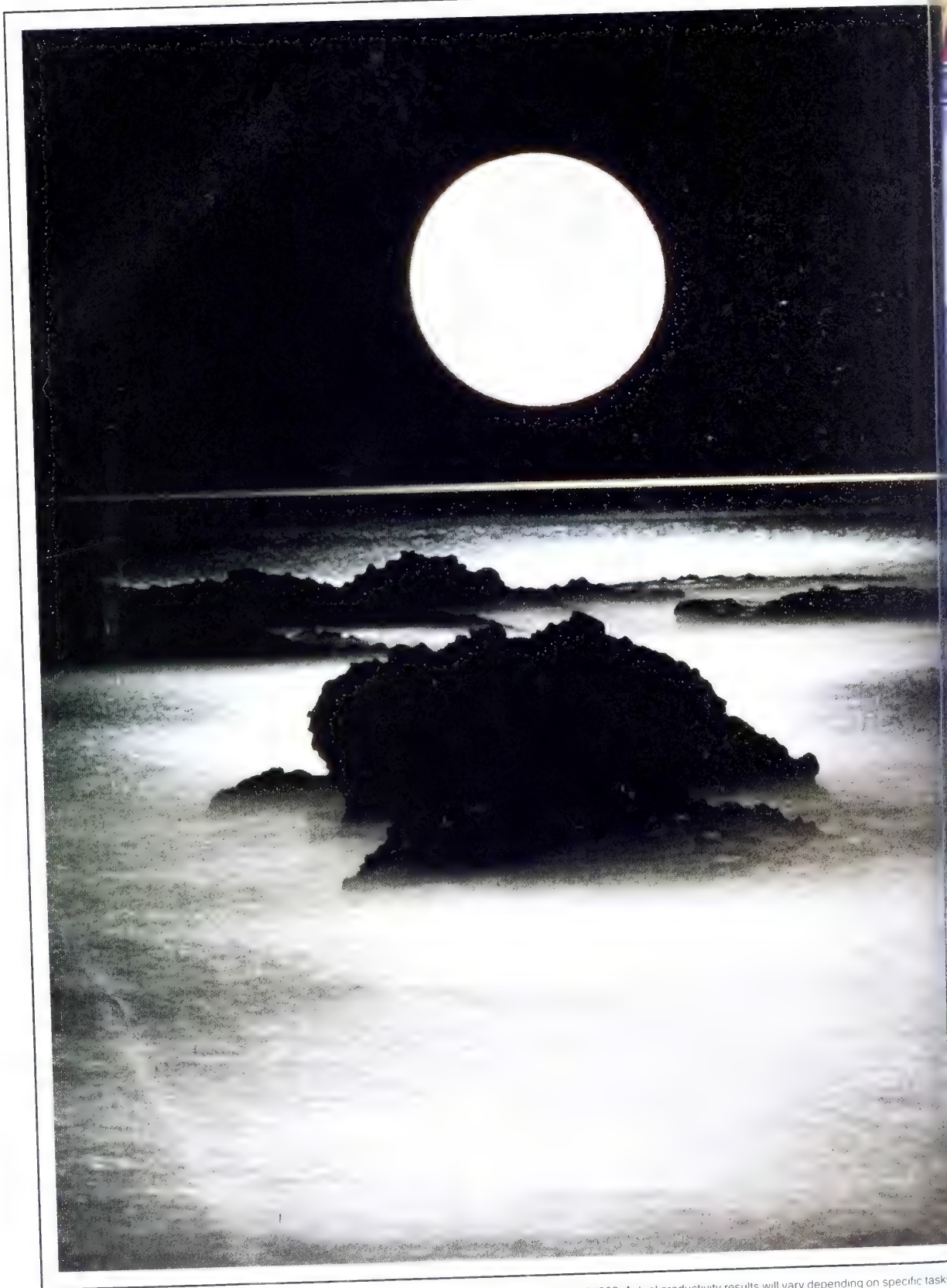
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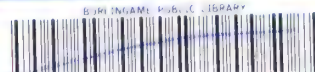


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BusinessWeek



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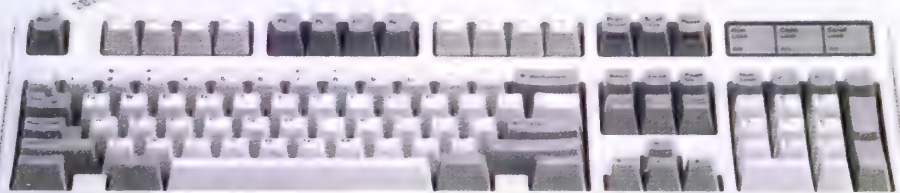
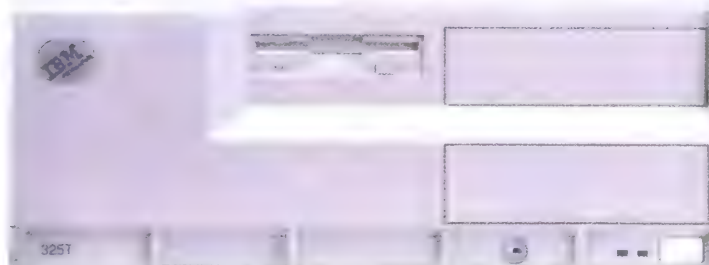
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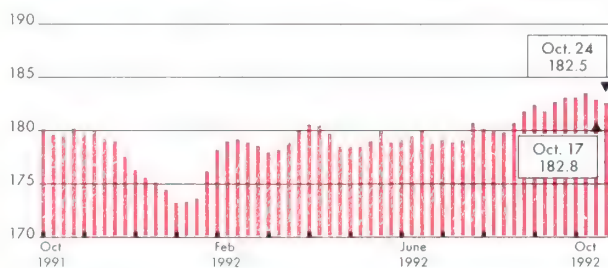
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Roll up your sleeves, Mr. Clinton . . .
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BusinessWeek Index

PRODUCTION

Change from last week: -0.2%
Change from last year: 1.3%

1967=100 (four-week moving average)

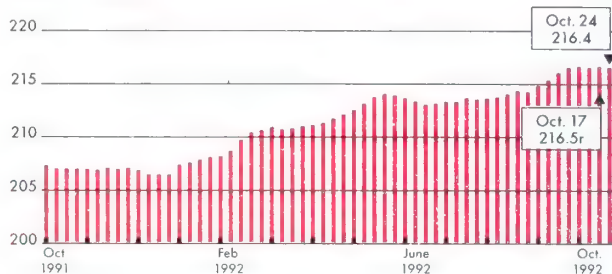


The production index declined slightly during the week ended Oct. 24. On a seasonally adjusted basis, output of autos and trucks were up sharply, and increases were posted in steel, electric power, crude-oil refining, and lumber production and rail-freight traffic as well. Coal output was unchanged, while data were unavailable for paper and paperboard. Before calculation of the four-week moving average, the index increased to 183.6, from 182.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.1%
Change from last year: 4.6%



The leading index was virtually unchanged during the week ended Oct. 24. Stock prices were up sharply in the week, but that was offset by the negative signals emitted from higher bond yields, an increase in the number of business failures, and lower growth rates for materials prices, real estate loans, and the M2 money supply. Before calculation of the four-week moving average, the index slipped to 215.6, from 216.8 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/31) thous. of net tons	1,750	1,733#	-2.4
AUTOS (10/31) units	125,607	129,504r#	-0.3
TRUCKS (10/31) units	97,555	98,002r#	7.8
ELECTRIC POWER (10/31) millions of kilowatt-hours	53,921	54,257#	1.6
CRUDE-OIL REFINING (10/31) thous. of bbl./day	13,576	13,560#	6.3
COAL (10/24) thous. of net tons	19,205#	19,039	-5.7
PAPERBOARD (10/24) thous. of tons	NA#	753.3	NA
PAPER (10/24) thous. of tons	NA#	747.0	NA
LUMBER (10/24) millions of ft.	476.5#	471.7	-3.8
RAIL FREIGHT (10/24) billions of ton-miles	22.0#	21.7	-0.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (11/4)	123	123	130
GERMAN MARK (11/4)	1.57	1.54	1.65
BRITISH POUND (11/4)	1.54	1.58	1.77
FRENCH FRANC (11/4)	5.31	5.22	5.62
CANADIAN DOLLAR (11/4)	1.25	1.24	1.12
SWISS FRANC (11/4)	1.40	1.37	1.45
MEXICAN PESO (11/4)	3,110	3,118	3,070

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (11/4) \$/troy oz	337.800	338.200	-4.7
STEEL SCRAP (11/3) #1 heavy, \$/ton	89.50	89.50	-4.8
FOODSTUFFS (11/2) index, 1967=100	197.1	195.9	-4.1
COPPER (10/31) ¢/lb	105.0	104.4	-5.9
ALUMINUM (10/31) ¢/lb	53.3	53.5	-0.4
WHEAT (10/31) #2 hard, \$/bu.	3.56	3.55	-5.8
COTTON (10/31) strict low middling 1-1/16 in., ¢/lb.	47.33	50.92	-17.2

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/30) S&P 500	419.26	415.03	6.8
CORPORATE BOND YIELD, Aaa (10/30)	8.07%	8.04%	-5.9
INDUSTRIAL MATERIALS PRICES (10/30)	96.3	96.7	0.7
BUSINESS FAILURES (10/23)	395	362	1.5
REAL ESTATE LOANS (10/21) billions	\$397.9	\$399.5r	-1.9
MONEY SUPPLY, M2 (10/19) billions	\$3,426.8	\$3,429.3	0.8
INITIAL CLAIMS, UNEMPLOYMENT (10/17) thous.	375	367r	-7.6

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
MANUFACTURERS' INVENTORIES (Sept.) billions	\$384.6	\$365.6	-1.3
MANUFACTURING SHIPMENTS (Sept.) billions	\$245.3	\$241.0	2.7
12 LEADING INDICATORS COMPOSITE (Sept.) index	148.2	148.6r	2.2
CONSTR. SPENDING (Sept.) annual rate, billions	\$428.5	\$422.8r	5.5

Sources: Commerce Dept., Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/19)	\$1,005.9	\$1,007.8r	14.0
BANKS' BUSINESS LOANS (10/21)	276.9	277.8	-7.8
FREE RESERVES (10/28)	773	973r	-19.1
NONFINANCIAL COMMERCIAL PAPER (10/21)	146.0	143.1	8.5

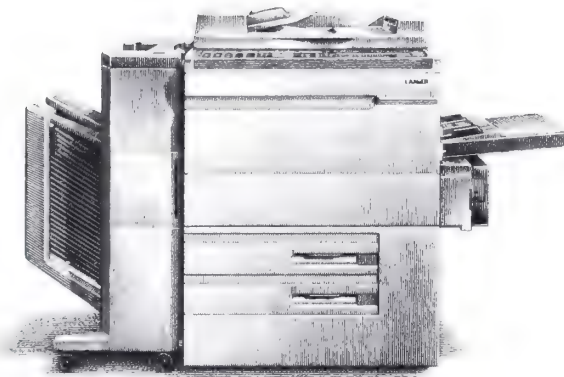
Source: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/3)	3.09%	2.91%	5.05%
PRIME (11/4)	6.00	6.00	7.93
COMMERCIAL PAPER 3-MONTH (11/3)	3.49	3.47	5.00
CERTIFICATES OF DEPOSIT 3-MONTH (11/4)	3.41	3.40	5.21
EURODOLLAR 3-MONTH (10/31)	3.46	3.44	5.35

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



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MAYBE YOU CAN GO HOME AGAIN



George B. Yurchyshyn remembers little of his war-torn hometown, Kalush, in western Ukraine. When he was 4, he fled with his parents, just as the Red Army closed in to chase out the Nazi German *Wehrmacht*. Still, he was always deeply conscious of his roots while growing up in northern Minnesota, where his family eventually settled. "At home, we always spoke Ukrainian," recalls Yurchyshyn. "And I was always being asked about my background and how my parents escaped from the Russians."

Now, 48 years later, Yurchyshyn has returned to live in his *batkivshchyna*—or fatherland. Every morning, he walks from his new home in the former Communist Party hotel in Kiev to the ornate gray-and-pink stone headquarters of the National Bank of Ukraine, the new country's year-old central bank. There, Yurchyshyn is both the bank's deputy chairman and one of just two foreigners it employs. His chief work is to help coor-

dinate links with the International Monetary Fund and to introduce the *hryvna*, Ukraine's new currency, which is supposed to replace the Russian ruble sometime next year. Says Yurchyshyn: "Three years ago, this would have seemed like a fairy tale."

DIASPORA. He's not alone. For the tens of thousands of Ukrainians who emigrated to Australia, Canada, Europe, and the U.S., the tumultuous happenings of the past year do seem like an incredible turn of events. For decades, their *batkivshchyna* was a melancholy memory. They couldn't return because they were viewed as subversives by the communists who ruled the Soviet Union. But on Aug. 24, 1991, just after a right-wing political putsch in Moscow failed, Ukraine declared its independence and set about transforming itself into a self-sufficient new nation the size of France.

These days, the fatherland that many

■ **NATIONAL COLORS: A RUSH OF UKRAINIAN EXPATRIATES IS RETURNING TO HELP BUILD A NEW NATION**

had never seen is drawing its dispersed children like a magnet. They are helping to build a new country from scratch by writing laws, advising the government, and investing in industries from tourism to food packaging. Many are

making personal sacrifices, leaving behind families and taking steep pay cuts—in Yurchyshyn's case, as much as 40%. They're also tapping their language skills and heading the offices of the 40 U.S. companies that have set up business in Kiev. Some of the biggest—American Telephone & Telegraph, PepsiCo, and Coca-Cola—are run by executives of Ukrainian descent.

Like Yurchyshyn, other returning Ukrainians are in highly influential posts. Canadian economics professor Oleg Havrylyshyn now works at Ukraine's Deputy Finance Minister. In September, retired U.S. Army Major General Nicholas Krawciw arrived in



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Letter From Ukraine

Kiev to advise the Defense Ministry and President Leonid Kravchuk on international security issues. Another Canadian, Bohdan Kravchenko of the University of Alberta, will help train a new civil service by setting up an institute of public administration. "We grew up thinking we were the last of the Mohicans," says Kravchenko, 45, who was born in Germany after his parents fled eastern Ukraine. "Suddenly, there's this possibility that, my God, maybe this is not a lost tribe. There's a huge new country rising. And you want to be part of it."

RETOOLING. Their work could help Ukraine to realize more speedily its potential as a major independent player in Europe's economy. Before independence, Ukraine ranked next to Russia as the most important republic in the Soviet Union. There's a substantial, although antiquated, industrial base, which includes manufacturing, steel, and aviation. Hydroelectric power is abundant, and there are some coal reserves. There is a strong tradition in scientific research, especially in metallurgy and space. And the region's rich farmlands were once known as the breadbasket of Central Europe.

But Joseph Stalin's collectivization nearly ruined Ukrainian agriculture. And his central planning resulted in major cities such as Kiev being left with pitiful infrastructures, a shortage of skilled people, and plain ignorance in dealings with the outside world. Since the Kremlin monopolized all foreign policy and trade links, most foreigners saw little need to develop ties with Kiev or other republic capitals while they were under Moscow's power.

Therein lies the biggest challenge for Ukraine: forging its own international ties. When Yurchyshyn arrived at the national bank in October, 1991, for example, the bank didn't have access to a



single foreign bank account. Moscow had always controlled the hard currency earned by Ukrainian enterprises through accounts at Vnesheconombank, the Soviet Bank for Foreign Economic Affairs. But when it went bankrupt late last year, the Soviet bank froze accounts, including nearly \$1 billion of Ukrainian funds. So, drawing on his contacts as an international banker for Bank of Boston, Yurchyshyn set up 18 correspondent accounts with banks in North America and Europe to help the Ukrainians finance world trade.

Another Ukrainian-American who sees building infra-

■ NEW YORK LAWYER LOZYSKYJ: HOPING TO CUT UKRAINE'S DEPENDENCE ON RUSSIAN OIL

structure as a crucial first step is New York lawyer Askold Lozynskyj, 40. One of his projects is a \$50 million bond issue to help Ukraine establish an international credit rating and modernize dock facilities in Odessa, the country's principal port. The latter is an especially high priority because of Ukraine's uneasy relationship with Russia, which provides most of Ukraine's oil via pipeline. During political rifts, Russia periodically threatens to shut down the pipeline. The modernization will allow Odessa to unload tanks more efficiently and thus cut Ukraine's dependence on Russian oil. Another of Lozynskyj's ideas is a \$200 million Ukrainian equity fund that would be used to jump-start small Ukrainian businesses such as shoe, brick, and appliance factories.

For Lozynskyj, executive vice-president of the Ukrainian Congress Committee of America, an umbrella group of Ukrainian-American organizations, setting up such funds is just the latest example of his nationalist ardor. In 1979, he and other protestors stormed the Soviet Mission to the U.N., winding up in New York jail. Twelve years later, he was in the slammer again, this time protesting Soviet policies at the Los Angeles Olympics. It was a matter of family tradition. Lozynskyj's father, a strident Ukrainian nationalist, was interned by the Nazis at Auschwitz. "The restraints were a badge of honor," Lozynskyj counts. "We

spend the night singing Ukrainian songs in jail." Other Ukrainians from abroad are zooming in on telecommunications. In a one-room Kiev office decorated with a blue-and-silver Ukrainian flag, three Ukrainian American AT&T executives are slogging through bureaucratic





Letter From Ukraine

set up a new switching network. A joint venture involving AT&T, Deutsche Bundespost Telecom, the Dutch postal and telecommunications network, and Ukraine's Communications Ministry will supply long-distance switches to cover Ukraine's 25 phone regions and build a satellite earth station near Kiev. The network will take several years to complete and will vastly improve communications both within Ukraine and with the outside world.

Still, actual investments of cash are just starting. Officials at the Overseas Private Investment Corp. in Washington, D.C., say that some 83 companies plan investments totaling about \$4 billion in Ukraine. Cash-strapped Ukrainian factories are waiting eagerly. One that might see money fairly soon is the Kiev Lift Factory. Otis, a division of United Technologies Corp., will begin investing up to \$17 million later this year to retool the 20-year-old plant from top to bottom. Factory director Anatoly G. Vakulenko believes the capital infusion will double his output over the next three years. The joint venture, 51% owned by Otis, was dreamed up by Otis East European project director Mark E. Millman, who emigrated from Ukraine in 1973.

PATRIOTS. In the same area is the sprawling Electronmash factory, where 10,000 workers hand-assemble clones of IBM and Digital Equipment Corp. computers. Sales are down at the electronics-equipment maker, which hopes to set up a joint venture in the near future with Redex Packaging Corp., a tiny private company in Rolling Meadows, Ill., owned and operated by husband and wife Ihor Wyslowsky and Marta Farion. Wyslowsky, in particular, is motivated by patriotism. His maternal grandfather, a judge, was murdered during Stalin's regime, and his other grandparents disappeared in Siberia. Wyslowsky's parents fled to Argentina, where he grew up.

If the deal goes through later this year, Electronmash will ship mechanical parts and frames for packaging equipment to Redex. The U.S. company will then add electronics and process controls and market the equipment in the West. That's appealing to Electronmash because it means hard-currency earnings. Redex would get low-cost parts from the factory, where workers are paid an average of 3,500 rubles, about \$13, a month.

Not all of the attention is focused on Kiev. Take Lviv, the major city in western Ukraine, a hotbed of the Ukrainian independence movement, especially after Stalin seized the region in 1939, as a consequence of his nonaggression pact with Hitler's Germany. On Freedom Prospect, a busy street formerly named after Lenin, there was a frenzy of activity at the Grand Hotel, an architectural beauty built a century ago, when the city was part of the Austro-Hungarian Empire. More than 60 construction workers, local artisans, and renovators transformed the hotel's five dusty floors with panels of locally produced stained glass and intricately carved wooden beds. Cut



crystal decanters from Lviv grace many of the guest rooms.

It's all part of the vision of Marta Fedoriw, owner of Bravo International Inc., a travel agency in Allentown, Pa. In 1990, after taking several tour groups to Lviv, she was offered the chance to lease and rebuild the hotel by the town's communist mayor. It was a big gamble, given the problems of finding materials and the chances for political unrest if local nationalists pushed too hard for independence. But the hotel opened on Aug 25. Muses Fedoriw: "I was well into the reconstruction when the coup occurred. It was a total risk."

Nor are the political risks over for Ukraine. The coming year will be a time of testing. Like many republican leaders, Ukraine's President Leonid Kravchuk is a former communist hard-liner turned reformer. He's now under attack from several sides. Unreconstructed hard-liners who fear rapid change want to derail reform. And Kravchuk also faces harsh

criticism from such international figures as World Bank Chief Economist Lawrence Summers and financier George Soros for moving too slowly on economic reform.

If Ukraine's government fumbles in its moves toward greater democracy and a market economy, the rush homeward of Ukrainian emigrants and their children will no doubt taper off. Burnout or backlash from locals could also deter the passionate Ukrainians from abroad. While the government has welcomed them so far, Ukrainians don't want foreigners ordering them around any more than they liked taking cues from Russians. "Many [overseas Ukrainians]

come and waste time by pontificating and being patronizing and repeating the obvious. It gets on people's nerves," says Kravchenko, co-director of the public administration institute.

RUSSIFIED. Also unsettling: Returnees sometimes don't like what they see. At a smoky, Friday night party with fellow Ukrainian-Americans and -Canadians, one 21-year-old worries about the gap between the Ukrainian culture he has found in Kiev and the one he left in the U.S. "I was really surprised at how Russified Ukraine is," says Mark Bodnar, a recent University

of Virginia graduate who says he has always been deeply involved in "Ukie" activities at home. A prime cause of his surprise: The large number of Kiev residents, Russian and Ukrainian alike, who speak Russian rather than Ukrainian.

"I feel closer to Ukrainian-American culture than to the culture I have found here."

Today's inhabitants of newly independent Ukraine are unlikely to live up to all the émigrés' dreams. Life in a former communist country that's trying to remake itself is not a fairy tale—it's tough. "It's flattering to talk about what the diaspora can do, but Ukrainians have to do it themselves in the end," notes U.S. Ambassador to Ukraine Roman Popadiuk, a Ukrainian-American who grew up in Brooklyn, N.Y. Yesterday's emigrants from *batkivshchyna* and today's Ukrainians have years of work cut out for them.

ROSE BRADY

Brady is *BUSINESS WEEK's* Moscow bureau chief.

■ MINNESOTA-BRED BANKER YURCHYSHYN: 'THREE YEARS AGO, THIS WOULD HAVE SEEMED LIKE A FAIRY TALE'



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The jump into hyper-space makes your stomach wrench, and your hands clench tightly when enemy fire zips over your head. The sights and sounds are so incredibly realistic that you almost feel like you are experiencing an adventure first-hand, rather than watching a movie. By the time it all ends, you feel drained, yet elated. But as you get up to go home, you realize that you already are home. You've just experienced the "home theater," the most exciting trend in home entertainment today. Break-throughs in optical, electronics and laser technology have made it possible to exchange TV boredom for the knock-out impact of a movie theater.

The Practical Home Theater

Experiencing a movie instead of just watching it requires something more advanced than conventional audio-video technology. The picture must be crisp, vivid and HUGE. The audio not only needs a natural tone, but it should also create a gigantic soundstage with individual sounds precisely placed all around you.

One of the best examples of the home theater is the surprisingly compact and practical Pioneer Home Theater. The giant, razor-sharp picture of its celebrated Pioneer rear-projection monitor, the spectacular 3-D stereo sound effects of its Home Theater Experience speakers and "Dolby® Pro Logic®" equipped Audio/Video Receiver, and the unrivalled sight and sound quality of its LaserDisc player combine to create an unforgettable sensation that quickly becomes indispensable. Once you get a taste of this state-of-the-art theater from Pioneer, conventional AV systems seem claustrophobic.

The Pioneer Home Theater brings the movie theater adventure into the privacy of your own home.



Note: The TV picture is simulated.

Although the Home Theater was designed to duplicate the real movie theater experience, its stunning picture and magic sound will also make all of your software dramatically more realistic, including broadcasts, LaserDiscs (LD), video tapes, and audio sources like CD. The Compatible LaserDisc (CLD) player is particularly useful, since it plays all major optical disc formats, including both CD and LD. The versatile control abilities, Digital Signal Processing (DSP) and Dolby® Pro Logic® circuitry of Pioneer's renowned audio-video receivers help transcend the limitations of video and audio software alike, bringing them a significant step closer to the original performance. Plus, the Pioneer Home Theater is great fun to listen to, since unlike normal audio, it can holographically project sounds all around the room in a vivid but realistic manner.

Not Everyone Can Play

But few companies are capable of integrating electronics, optics, video and audio to the degree needed for a top-notch home entertainment system. This demands the multi-field expertise of a comprehensive technological corporation, but it also helps to be an audio and video specialist. Like Pioneer. Today, Pioneer is second to none in laser, optical, magnetic, and electronics technology, and its home entertainment products are among the most advanced in the world. But sometimes, technology itself is not enough.

Beyond Technology

Traditionally, video and audio equipment was designed to reproduce software accurately. But as no software is perfect, the real goal of home entertainment should be to reproduce the original event, not the software. For example, most companies have said that CD offers "perfect sound forever". However, Pioneer has never agreed, and designed the "Legato Link" specifically to compensate for CD's inherent limitations. This circuit analyzes CDs, computes what the original sound was like before it was recorded, and corrects the digital signals so the final playback is as close to the original performance as possible. Best of all, it works on all your existing discs.

At Pioneer, our trademark is quality. If any product doesn't meet our strict standards, we won't release it. But we also emphasize reliability, and versatile products that make real sense for the consumer. Designed to create a direct link to the thrill and emotion of the original performance, Pioneer products are capable of playing, and improving, a wide range of software formats, and are specifically engineered against obsolescence. You see, we consider our responsibility to the consumer to be the most important technology of all.

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marketplace in the past two years. In the 1991 model year, Buick led the industry (domestic and import) in sales volume increase and market share increase. In the 1992 model year, Buick's LeSabre was the No. 1-selling full-size car. And in the first few weeks of the 1993 model year, Buick sales were up 12.3%—including a 142% increase for Skylark—while the industry was up only 0.6%.

J. E. DeCou
Director of Public Relations
Buick Motor Div.
General Motors Corp.
Flint, Mich.

WHY DON'T BANKS LEND MORE? LOOK AT THE ROADBLOCKS

The story "Jumping into the credit gaps" (Finance, Oct. 19) states that banks are shy of making loans and other lenders are filling the gap. You would be loan-shy, too, if:

- Regulators were superaggressive in forcing you to write off loans against scarce capital, out of fear of having another savings and loan debacle.
- You could do far better in making investments than loans, because they had low or no capital-backing requirements.

■ Borrowers still looked upon the banker as an easy mark and hesitated to accept the requirement that they place some of their own money at risk in the venture.

■ Bankruptcy and foreclosure statutes and interpretations made it difficult and time-consuming for banks to get their money back in cases of default.

■ Nonbank competitors in the loan market could undercut rates because they had no reserve requirements or Community Reinvestment Act requirements to meet.

Paul S. Nadler
Professor of Finance
Rutgers
Newark, N. J.

MORE HOMEMAKERS MAY BE JUST WHAT THE ECONOMY NEEDS

Your commentary "Family care: Tips for companies that are trying to help" (Top of the News, Sept. 28) asserts that the economy would suffer great harm if one parent in each household with children left the paid labor market. The assertions are based on superficial analyses of minimal data. No consideration is given to the contributions the

nonemployed spouses would make to their families, schools, and communities. Nor is consideration given to the greater effectiveness the remaining workers would have on the job because of reduced absenteeism to care for household and family duties.

The author comments on the tremendous cost of drug addiction and crime but apparently didn't consider it curious that those horrible problems have grown up during the same 25-year period that homemakers have been leaving the home to join the paid labor force. Tell us again why we can't afford to have parents devote more time and energy to raising our children.

David J. Arthur
Ruth E. Arthur
Costa Mesa, Calif.

MIDLANTIC CUT EXPENSES —BUT IT DIDN'T USE AN AX

The story "Banking pulls back from the brink" (Finance, Nov. 2) makes several interesting points about banking, but one statement about Midlantic Corp. is misleading. The expense reductions referred to were accomplished in the businesses of Midlantic remaining after

WHOSE ASSETS UNDER MANAGEMENT ARE GROWING BY A BILLION DOLLARS A MONTH?

ome banks were sold. Through a broad-based, bankwide reengineering effort, expenses were reduced while customer service was increased—without selling assets, closing branches and existing businesses, or reducing salaries.

Garry J. Scheuring
Chairman, President, and CEO
Midlantic Corp.
Edison, N. J.

WO WAYS EMPLOYERS CAN OPE WITH WORKERS' COMP

The idea that a worker should be entitled to benefits (medical, lost wages) regardless of fault was noble in design, but because of legal and medical abuses, the employer is now the victim ("When injured employees act anything but," Finance, Oct. 5). While there is no shortage of ideas to correct this situation, two of them merit specific mention. Employers and/or insurance companies should be able to control medical treatment. Employees should not be able to "doctor shop," clinics should not be able to solicit patients, and unlimited/unquestioned treatment should not be permitted.

The other solution, available in Texas, is to allow employers to leave the workers' compensation system and institute a benefit plan under the Employee Retirement

Income Security Act. In Texas, employers who choose this route (now estimated as 80,000-plus) have realized, on average, a 70% reduction in work-related-injury costs and a dramatic reduction (by 80% to 90%) in frequency of claims.

The "fraud units" of the various states and insurance companies are ineffectual at best. To date, there have been 61,476 workers' compensation claims filed in Texas. This means that 12,295 (20%) of these claims are "questionable." The fraud division of the Texas Workers' Compensation Commission has investigated only 354 and sought indictments on only 13.

Ronald J. Walenta
Vice-President
Frederiksen, Frederiksen & Austin
Dallas

AL CHECCHI HAS NORTHWEST POINTED IN THE RIGHT DIRECTION

Larry N. McCumber criticized many of the changes Al Checchi has implemented at Northwest Airlines Inc. in "Checchi and balances" (Readers Report, Oct. 19). Northwest's financial position indeed appears more precarious than before the leveraged buyout, but as one who lives in a market completely dominated by Northwest, I can testify

that Checchi's determination to impose radical change on the "ragtag operation" he purchased was absolutely correct. Under prior management, Northwest consistently offered terrible service on filthy aircraft with surly personnel. While by no means yet an industry leader in any of those areas, Northwest has dramatically improved. I cannot assess Checchi's understanding of the airline industry, but he does seem to understand that without trying to satisfy customers, you will surely fail.

Joseph S. Folz
Auburn Hills, Mich.

HOW MUCH DOES A LABORER EARN IN NEW YORK?

In reference to "From wingtips to workboots" (Top of the News, Oct. 19): \$65,000 a year for a novice, out-of-shape, middle-aged laborer?! Please say it's a typo. The New York building industry isn't that out of whack... is it?

Glenn T. Evans
Baltimore

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LIBERATION MANAGEMENT: NECESSARY DISORGANIZATION FOR THE NANOSECOND NINETIES

By Tom Peters

Alfred A. Knopf • 834pp • \$27.50

TOM PETERS' MANTRA FOR 'NUTTY TIMES'

It's hard to be indifferent about Tom Peters. He has become American business' best friend and worst nightmare, a champion and a critic, a guru and a gadfly. He is fearless about criticizing the corporate elite: When President Bush went to Japan with Detroit's Lee Iacocca, Harold Poling, and Robert Stempel, for example, Peters dubbed the CEOs "the three blind mice." Eagerness and courage in speaking out on key issues have helped make him the most quoted observer of U.S. business.

Liberation Management, Peters' fourth and latest book, demonstrates that he hasn't run out of things to say. It's an ambitious and literally weighty undertaking, tipping the scale at three pounds. Early on, Peters announces: "I pray we have a bumpy ride in the pages ahead." And so we do. He throws so many stories, anecdotes, and ideas at readers that it's hard to digest them.

Still, the co-author of *In Search of Excellence*, the best-selling management book published exactly a decade ago, writes in a chatty and engaging style. He brings unabashed emotion and opinion to every page. If all the exclamation points, rhetorical questions, and asides are at times annoying, they're also what set Peters apart from so many other, ponderously dull, business analysts.

In *Liberation*, Peters—like nearly every other contemporary business observer—writes about the speed at which products, markets, and technology are changing. Exhorting managers to respond to this new reality, he says no industry is staid or predictable anymore. "We're all in Milan's haute couture business and Hollywood's movie business," he writes. "If you don't feel crazy, you're not in touch with the times! The point is vital. These are nutty times. Nutty organizations, nutty people, capable of dealing with the fast, fleeting, fickle, are a requisite for survival."

As always, Peters urges companies to

pay more attention to both employees and customers, focusing on ways to motivate workers and forge closer links with buyers. But in *Liberation Management*, he shifts his emphasis to the structure of organizations. Roughly half the book is devoted to the need to rethink corporate structure. Peters expounds on everything from the need for "minimalist headquarters" to "deintegration"—the falling apart of companies (General Motors comes to mind) that try to produce everything themselves. He

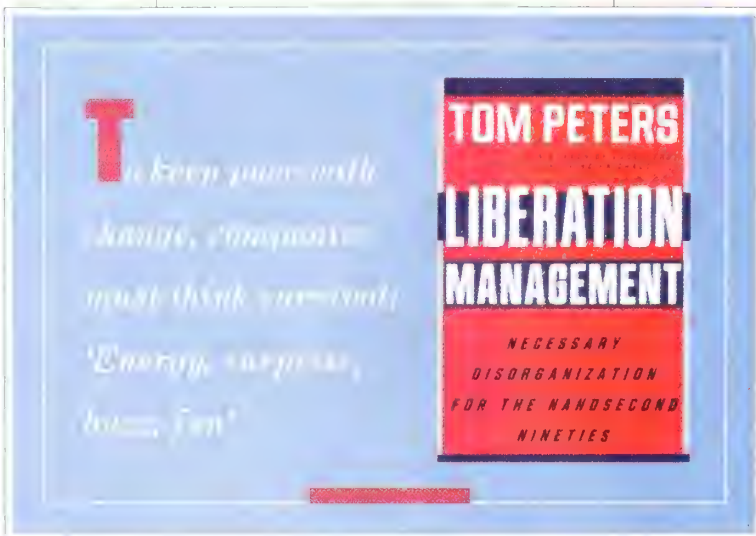
could move more quickly and positively with less oversight. He draws inspiration from such iconoclasts as Percy Barnevik, who cut the corporate staff at Switzerland's Brown Boveri from 4,000 to 200 after the company merged with Asea of Sweden. The result: a series of more nimble companies that are closer to their customers.

At one point, Peters urges CEOs to run their companies as if they were carnivals—with a bare-bones central staff, individual hawkers in booths, and customers able to choose whatever services they wish. "Say carnival and you think energy, surprise, buzz, fun," he writes. "To create and maintain a carnival is never to get an inch away from dynamic imagery. As chief, you must feel the dynamics in your fingertips, be guided by them in every decision."

As such passages suggest, Peters is very good at making management advice lively, even interesting, for busy executives. But *Liberation Management* is just too long. Moreover, on nearly every other page, Peters cites an academic or consultant, a book or article in *BUSINESS WEEK* or *The Harvard Business Review*. On the one hand this is useful: Peters is a kind of intellectual vacuum cleaner, reading widely and continually sucking up ideas. For executive with no hope of reading as much, he provides tidbits of the best new management thinking. But the many citations also point to a problem: Peter seems to be reading to

much. This time around, his insights seem increasingly second-hand, formed at a distance from real experience.

With the world moving toward knowledge economy, Peters looks to today's professional-services firms as models for future survival. They are already populated with knowledge workers, he reasons, so the best-run among them offer lessons for more traditional businesses. Among the companies he holds up as examples are Electronic Data Systems, Ross Perot's old computer-consulting outfit; management consultants McKinsey & Co., Peters' old stomping ground; and the accounting firm of Arthur Andersen & Co. In each, he notes, most work is performed by teams in which individuals from different disciplines—marketing, finance, production—come together to share ideas and analyze a particular problem. In every kind of business, he suggests, managers should



speaks of "buckyborgs," organizations made up of 50- to 60-person business units, and of "brainware," which he says has replaced hardware as the basis for competition in the age of information.

Much of what he's saying—that the organization of the future will be leaner, flatter, networked—has been said before. But in the quest for flexibility to cope with fast-paced change, Peters urges a truly radical redo. At his most extreme, he suggests that companies adopt "the rule of five"—that there be no more than five central staffers for every \$1 billion in revenue. That's impossible, of course: Even at Johnson & Johnson, perhaps America's most decentralized corporation, there are 1,000 people in headquarters for some \$13 billion in sales. But Peters is out to shake up managers' thinking. Central staff, he argues, serves largely as an intrusive bureaucracy, and individual business units

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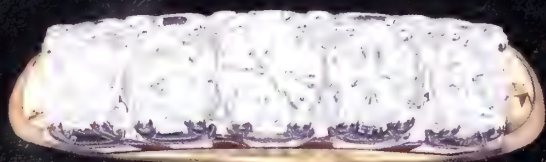
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BOOK BRIEFS

UNDERSTANDING THE DEAD SEA SCROLLS

Edited by Hershel Shanks

Random House • 336pp • \$23

CANON FODDER

The characters could come from an Indiana Jones tale: Bedouin shepherds, Arab antiquities dealers, an Israeli archaeologist-soldier, a U.S. TV evangelist, mysterious Catholic clerics—all vying for a cache of scrolls that could unlock the secrets of Western religion. One text may hold coded instructions to a hidden treasure. The documents are worth millions. But this is no fable. It's the saga of this century's great archaeological find, the Dead Sea Scrolls.

Editor Hershel Shanks makes sure the controversies about these ancient fragments are presented in scholarly context. But it's still a riveting tale, from the discovery of the first scrolls at Qumran in 1947 to the final push in 1991 to make unpublished texts available. (The official team of scholars had been releasing them at an excruciatingly—some have said unconscionably—slow pace.) Shanks then introduces each of 19 short, readable articles by a dozen experts.

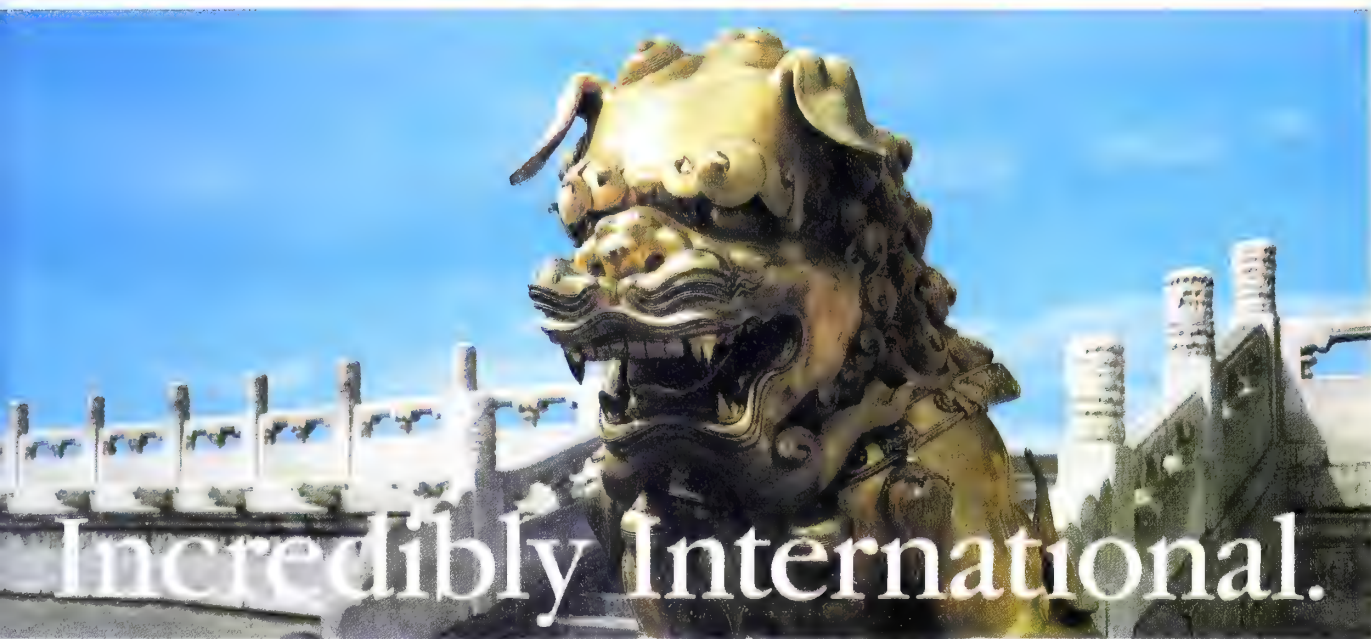
In one fascinating article, Yigael Yadin explains how early Christianity may have adopted certain customs—including baptism, celibacy, even Sunday worship—from the Essenes, an ancient Jewish sect believed by many to be the scrolls' originators. The scrolls thus deepen our sense of an inextricable link between the two religions. Moreover, as Yadin writes, they bring the Essenes' apocalyptic Judaism—and the birth of Christianity—"into immediate focus across a barrier of two thousand years."

In the book's final section, Shanks returns to the controversies about the scrolls, cutting down to size some of the wilder theories, such as the notion that the Vatican tried to suppress the scrolls. The book makes clear that the unpublished texts contain no bombshells. And while the reader may sometimes wish for a unified view of the scrolls, instead of a dozen only partly convergent ones, this diversity sharpens one's sense of how difficult it is to interpret this pivotal slice of history. Even the most dispassionate scholars must grapple not only with the distance of time, but with their personal views of eternity.

BY JOE MANDEL



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WHY THE COST OF SERVICES IS SOARING

BY ALAN S. BLINDER



In order for manufacturing and services to attract workers, wages for both must rise at about the same rate. But productivity grows more rapidly in industry, so services must jack up prices faster to keep pace

Many of the most important ideas in economics are disarmingly simple—the sort that make you mumble: “Why didn’t I think of that?” In talking to various groups of late, I have been reminded of one striking example: a general and powerful idea that sheds light on important issues as seemingly diverse as the health-care crisis, the escalating costs of college education, and the deterioration of municipal services—but that is virtually unknown outside the economics profession.

The idea, articulated most clearly by my colleague William J. Baumol many years ago, is that the market mechanism has an inherent tendency to raise the prices of personal services faster than the prices of manufactured goods. To see why, consider three simple facts about the way markets work.

First, the prices of goods and services reflect the costs of producing them.

Second, productivity advances much more rapidly in manufacturing than in services. New technology and machinery make factory work ever more productive: Auto workers, for example, now turn out vastly more cars per hour than they did in Henry Ford’s day. But a waiter serves about the same number of customers per evening, and a barber cuts about the same number of heads of hair per hour. If these workers raised “productivity” (output per hour), their customers would probably complain that service had deteriorated.

Third, over long periods of time, wages of workers in manufacturing and service industries must rise at roughly the same rates. Why? If they did not, restaurants, hospitals, and universities would be unable to attract employees, who would line up for higher wages at factory gates instead. Free markets do not allow such imbalances to persist.

Now put these three facts together. Wages of manufacturing and service workers rise at about the same rate, while productivity grows much more rapidly in manufacturing. Hence the costs—and the prices—of personal services must rise faster than the prices of manufactured goods. For example, college tuitions, doctors’ bills, and the cost of police protection should rise faster than overall inflation.

The data verify this prediction. From 1950 to 1990, the consumer price index in the U.S. rose at an average annual rate of 4.3%. But goods prices rose just 3.7% per year, while service prices rose 5.4%. The gap (1.7 percentage points) is not far from the average economywide productivity growth rate (2%).

Applying this analysis to more specific numbers illuminates three contentious issues. It is said that medical costs are soaring out of

control, college tuitions are rising at unconscionable rates, and municipal services are deteriorating despite higher taxes. Is this because doctors, teachers, and police officers are greedy or inefficient?

Start with health-care costs, which grew 1.8 percentage points faster than the CPI over the period 1950 to 1990 (6.1% vs. 4.3%). No one doubts that there were phenomenal technical advances in medical care. Nonetheless, many medical services (such as a physical exam) take about the same number of minutes as they used to and were therefore bound to grow more expensive as wages rose. In fact, if we look separately at medical commodity prices and medical service prices, we find that the latter rose at a 6.6% annual rate, while the former rose just 3.6% per year.

Next, think about the nature of college bills, which go mainly to pay for personal services. Princeton University could easily double the “productivity” of its faculty by doubling class sizes. But I doubt that students, alumni, and trustees would count that as an improvement. In fact, class sizes at Princeton are not much different now from what they were 20 years ago. But faculty salaries have risen roughly in line with average wages. The result? Princeton’s tuition has consistently risen faster than the CPI, just as other tuitions have. A comprehensive index maintained by the College Savings Bank shows that college-cost inflation outstripped overall inflation by an average of 2.7 percentage points from 1957 to 1992.

JUMPING THE GUN. As a final example, consider the provision of state and local government services such as education and police protection. Taxpayers complain when taxes go up while public services deteriorate. But if no one wants “productivity improvements” such as larger class sizes and fewer officers per capita, this is what we must expect. In fact, price increases for the goods and services bought by state and local governments averaged 5.4% from 1950 to 1990—exactly matching the economy-wide rate of inflation in services.

Does this absolve hospitals, colleges, and city halls from blame for rising service prices? Not quite. But the analysis does warn us not to jump to conclusions. That tuitions, say, rise faster than overall inflation does not prove that colleges are poorly run.

It is tempting to label the ever-rising costs of personal services a defect of the market mechanism. But it is not. It is simply the way markets should and do work. We might as well get used to the idea that service prices will rise faster than goods prices for the indefinite future—for they almost always have.

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *GROWING TOGETHER*



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Economic Trends

BY GENE KORETZ

DESPITE RISING RATES, HOUSING SHOWS SURPRISING STRENGTH

With mortgage rates up by as much as 70 basis points since mid-September, economic forecasters have been bracing themselves for signs of renewed weakness in the bellwether housing sector. Instead, it appears that the market for new single-family homes may actually be strengthening.

For one thing, the National Association of Home Builders reports a significant pickup in optimism in early October. Its monthly survey indicates that 32% of builders felt that current sales conditions were good, the highest level since February, 1989. Similarly, homebuilders' sales expectations for the coming six months and their reports regarding traffic of prospective buyers through model homes were both the strongest in three years.

The latest sales numbers help to explain this exuberance. According to the Commerce Dept., instead of declining by 6.1% as originally reported, sales of new single-family homes in August actually rose for the fourth straight month. Although sales dipped by 1% in Sep-

after trending down in August and September from its recent peak.

If housing remains resilient, it could help lift the economy out of the doldrums. Economist Brian M. Jones of Salomon Brothers Inc. notes that the rise in spending on single-family dwellings over the 12 months ended in June "alone boosted real GDP by almost two percentage points." And that doesn't include the effect on growth of housing-related sales such as furniture. Indeed, real consumer spending on furnishings and appliances exploded at a 17.2% annual rate last quarter.

Why has the turnaround in mortgage rates apparently failed thus far to short-circuit the pickup in housing? Economist Michael Carliner of the NAHB notes that housing demand often strengthens as rates turn up in the wake of recessions because people feel that they have already touched their cyclical low. But he also warns that any such positive reaction would almost certainly be dissipated if rates moved significantly higher.

HOW R&D SPENDING BOOSTS NATIONAL COMPETITIVENESS

Numerous studies have shown that business investment in plant and equipment is a critical determinant of a nation's economic growth and prosperity. By contrast, the impact of private investment in research and development on national productivity has received relatively little attention.

Just how unfortunate that omission may be is underscored by the surprising results of a new study by economist Frank R. Lichtenberg of Columbia University's business school. Lichtenberg looked at the relationship between levels of R&D investment and productivity growth rates and living standards in some 53 countries from 1960 to 1985. His analysis indicates that the rate of return on such intangible investment actually exceeds the return on expenditures for plant and equipment by a factor of as much as 7 to 1. That is, a dollar of private R&D investment appears to be seven times more potent in facilitating productivity growth and higher per capita income than a dollar of conventional capital investment.

Lichtenberg's analysis suggests that R&D has a high "social return" within a nation, with important spillover effects that improve productivity growth across industries. It also suggests that R&D spillovers across national borders tend to occur with a significant lag, allowing nations that foster a high level of such in-

vestment to maintain their advantage by constantly renewing their technological capital.

IS OPTIMISM READY TO RETURN? CHECK OUT THE RESTAURANTS

Although surveys indicate that consumers are growing gloomier, economist Gregory Gieber of Smith Barney Harris Upham & Co. points to one indicator that suggests that confidence is bottoming out: retail sales of drinking and eating establishments. "Dining out," he says, "is the most highly discretionary action of all consumer purchases and the one that is most easily and quickly adjusted when people become concerned about economic security."

After rising at about a 3.2% annual rate from 1982 through 1988, he notes real drinking and eating retail sales suddenly leveled off in 1989 and moved sideways through 1991. Then, after a brief rise early this year, they "fell through the floor, declining by 7% between February and July."

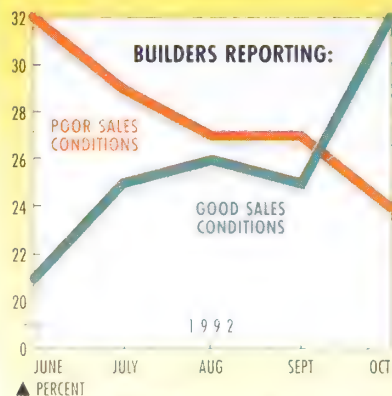
The good news is that in the past two months, this spending drop has leveled off, suggesting that consumers have at least stopped curtailing such expenditures. One development that has helped, adds Gieber, is more reasonable menu prices, which have risen a scant 1.7% in the past 12 months.

A MORE SOBER LOOK AT MEXICAN TRADE PROSPECTS

Expectations that fast-rising U.S. exports to Mexico will continue to offset weaker sales in Europe may prove overly optimistic. Economist Michael Moran of Daiwa Securities America Inc. points out that merchandise exports to Mexico actually declined in July and August to an annual level some 19% below their second-quarter pace—suggesting that such exports are about to post their first quarterly decline in three years.

Moran says that the main reason for the sudden drop is a slowdown in Mexican growth after the government nearly doubled short-term interest rates to about 19% earlier this year to rein in inflation. Uncertainty associated with the U.S. election and the North American Free Trade Agreement may also have led many companies to put investment plans on hold. For the next few months, he says, "the outlook for trade with Mexico is not especially favorable."

HOMEBUILDERS ARE TURNING OPTIMISTIC



tember, that initial estimate, like others this year, will almost certainly be revised upward.

Meanwhile, single-family starts have been surprisingly strong, hitting a 1.07 million rate in September, 24% higher than their year-earlier level. And the Mortgage Bankers Assn. reports that its index of applications for mortgages to finance home purchases (which includes new and existing homes) appears to have turned up sharply in mid-October,

Cal Lewis

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FASTEN YOUR SEAT BELT, BILL, IT'S GONNA BE A ROUGH RIDE FOR A WHILE

The sign in President-elect Bill Clinton's campaign headquarters in Little Rock says it all: "It's the economy, stupid!" That note kept Clinton's election bid focused on the key issue, which he rode all the way to the White House.

Now comes the hard part. What makes the President-elect's task unusually difficult is the long-term nature of many of the economy's problems and Washington's diminished power to do anything about them. The limitations placed on both fiscal and monetary policy by record federal deficits and other structural impediments only complicate the job of finding solutions that everyone can live with—especially the financial markets.

The earliest that any policy initiatives could lift the economy would be the second half of 1993. But any boost is likely to be small, because of fiscal constraints. Unless the economy really hits the skids, there might not be much urgency to implement a budget-busting stimulus package. Such a nostrum runs the risk of pushing up long-term interest rates and placing fiscal and monetary policies at loggerheads.

Although the President-elect inherits a struggling economy, he also gets four positive fundamentals that may eventually obviate the need for fiscal pump-priming. This quartet of declining inflation, low interest rates, faster productivity growth, and better profit margins is paving the way for continued, if only modest, growth.

CONSUMER SPIRITS MIGHT PERK UP

In a campaign peppered with charges of waffling, it was actually the economy that made the biggest zigs and zags. And Clinton's victory won't turn the economy around overnight. The latest set of data on the factory sector, home demand, and construction suggests that solid growth will remain elusive well into 1993. In particular, the leading indicators hint that the economy will still be struggling come Inauguration Day (chart).

In fact, the economy's path through the Clinton Administration's first 100 days was set well before Nov. 3. Consumer confidence might perk up now that some uncertainty has been resolved, but consumers' difficulties are deeply rooted in financial problems and job insecurity. The economy should continue to grow, but it will probably be at a pace near the lower end of the 1% to 3% range

the recovery has been mired in for the past 1½ years.

One ray of sunshine might be the downtrend in new jobless claims. Through mid-October, the four-week average of claims had dipped below its September level. But it is still too early to tell if this decline reflects better labor markets or just transitory effects following the hurricanes and strikes in late summer.

FACTORIES STRUGGLE TO STAY AFLOAT

Elsewhere, there are lots of negatives in the outlook. The newest problem area is manufacturing. According to the Federal Reserve's latest regional summary of business activity, growth in the economy continued at a "slow and uneven pace" in late September and October. However, the Fed also noted, "the manufacturing sector apparently lost some momentum in much of the nation."

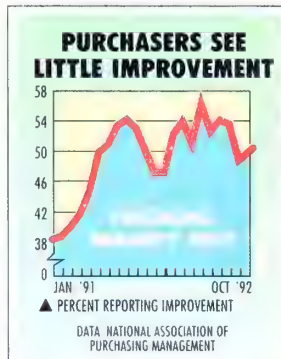
Factories are losing steam because of weak demand. New orders for both durable and nondurable goods rose 1.1% in September, but that followed two consecutive declines. Bookings in the third quarter remained below the second-quarter level.

The pace of new orders continues to lag behind that of factory shipments. Shipments rose 1.8% in September, partly rebounding from a steep 2.5% drop in August. Although the boost in shipments helped to cut inventories by 0.3%, the backlog of unfilled orders continued to slide. That's why the factory sector was struggling at the beginning of the fourth quarter.

Indeed, that's the latest word from the National Association of Purchasing Management. The NAPM's index of industrial activity edged up to 50.6% in October from 49% in September, barely clearing the 50% hurdle that indicates that manufacturing is growing, not declining (chart).

The NAPM said production, orders, and export demand lifted the index, but employment remains a sore spot. The uptick in demand, both at home and abroad, is clearly good news for manufacturers, which are facing increasingly empty order books. However, the NAPM cautioned that orders will have to rise further if economic growth is to show more vigor.

And vigor is not the message from the leading indicators. The leading index—a composite of 11 indicators that foreshadow the economy's future—slipped 0.3% in September, the third drop in four months. The slippage in the in-



Business Outlook

dex suggests the economy will be hard-pressed to grow by more than 2% in coming quarters.

In addition, the continuous drop in the index of coincident indicators—which tracks the current state of the economy—is particularly disconcerting. The index fell by 0.3% in September, on top of a 0.6% plunge in August. It is now at its lowest level in five years, suggesting that the recovery from recession has not even begun yet.

The sagging coincident index certainly implies that the third-quarter jump of 2.7% in real gross domestic product was out of whack with reality. The index last quarter was below the second-quarter average.

LET'S BUILD ANOTHER NEW OFFICE PARK. NOT!

The latest reports on the housing market and construction also suggest that President-elect Clinton has tough work ahead. Although new-home sales seem to be doing well, overall construction is still wrestling with too much commercial real estate.

Construction spending increased 1.3% in September, reversing a 1.1% fall in August. Most of the seesawing came in public spending. Government outlays rose 2.1% in September, after dropping 2.3% in the previous month.



Private construction increased 1.1% in September, led by a strong advance in the residential sector. After making no headway in early summer, home-building jumped 1.9% in August, and then rose an additional 1.6% in September. Renewed signs of life in housing demand are prodding builders to strap on their tool belts again.

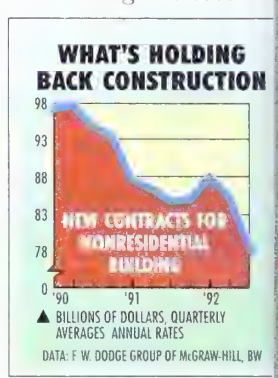
Indeed, new single-family-home sales rebounded nicely last quarter, after dropping in the second (chart). Home sales fell 1% in September, to an annual rate of 617,000, but that followed four solid

gains in a row. Sales for the entire third quarter were at a 618,000 pace—the best quarterly sales rate in nearly three years.

Increased buying is clearing out much of the inventory of unsold homes across the country. In September, the supply of unsold homes stood at an extremely low 5.3 months, in contrast to 7.2 months a year ago. This lean inventory should help to boost housing starts in the fourth quarter and give a lift to the economy this quarter and into early 1993.

Builders of commercial projects will continue to fare poorly, though. Nonresidential construction was virtually flat in September after two huge losses in July and August. Moreover, the latest data on building contracts suggest that even fewer new projects are being started.

The F.W. Dodge Group of McGraw-Hill Inc. reports that new building contracts fell 2.7% in September. But contracts for nonresidential construction plunged 5.3%—the third consecutive drop. For the third quarter, agreements to build commercial real estate are down 8.1% from a year earlier. Nonresidential contracts are at their lowest level in 8½ years (chart).



That means office and industrial construction will remain a drag on the economy into 1993. Indeed, the overhang of office space is one of those structural problems that will hamper this economy, regardless of who had won the White House.

Finally, though, the 1992 campaign is ended. With its debates, mudslinging, and infomercials, this election may well have been one of the hardest-fought in the postwar era. But Clinton's toughest challenges lie ahead. He may discover that rallying the voters was child's play compared with rallying this economy.

THE WEEK AHEAD

PRODUCER PRICE INDEX

Tuesday, Nov. 10, 8:30 a.m.

One economic factor that President-elect Clinton doesn't have to fret over is inflation. Producer prices for finished goods probably rose by just 0.2% in October, say economists surveyed by MMS International, a division of McGraw-Hill Inc. That follows a mild 0.3% increase in September and keeps producer inflation rising by about 1.5% from a year ago. Food prices likely declined in October, but fuel costs may have risen. Even excluding the volatile food and energy components, though, the forecasters say producer prices probably also advanced by just 0.2% in October, the same small rise as in September. Weak consumer

demand and low growth in unit labor costs will keep the lid on inflation in months to come.

CONSUMER PRICE INDEX

Friday, Nov. 13, 8:30 a.m.

Consumer prices probably increased by 0.2% in October, just as they did in September. An increase in gasoline costs will be offset by smaller gains in prices elsewhere. Excluding food and energy, consumer prices probably also rose by 0.2% last month, the same modest increase as in September. In particular, the growth of service inflation has moderated considerably in this sluggish economy. Service prices excluding energy are up by only 3.6% over the past 12 months, down from 4.7% a year earlier.

RETAIL SALES

Friday, Nov. 13, 8:30 a.m.

The MMS economists expect that retail sales likely increased by 0.4% in October on top of the 0.3% rise of September. Receipts at department stores and grocery chains probably advanced last month. The upward revision to new home sales suggests that furniture buying may have increased a bit, but car sales added little to the retail sector. The modest increase in October means that retail sales started the fourth quarter at a higher level than their third quarter average. The biggest challenge for retailers in this quarter, though, will be maintaining the sales growth during the important holiday shopping season.

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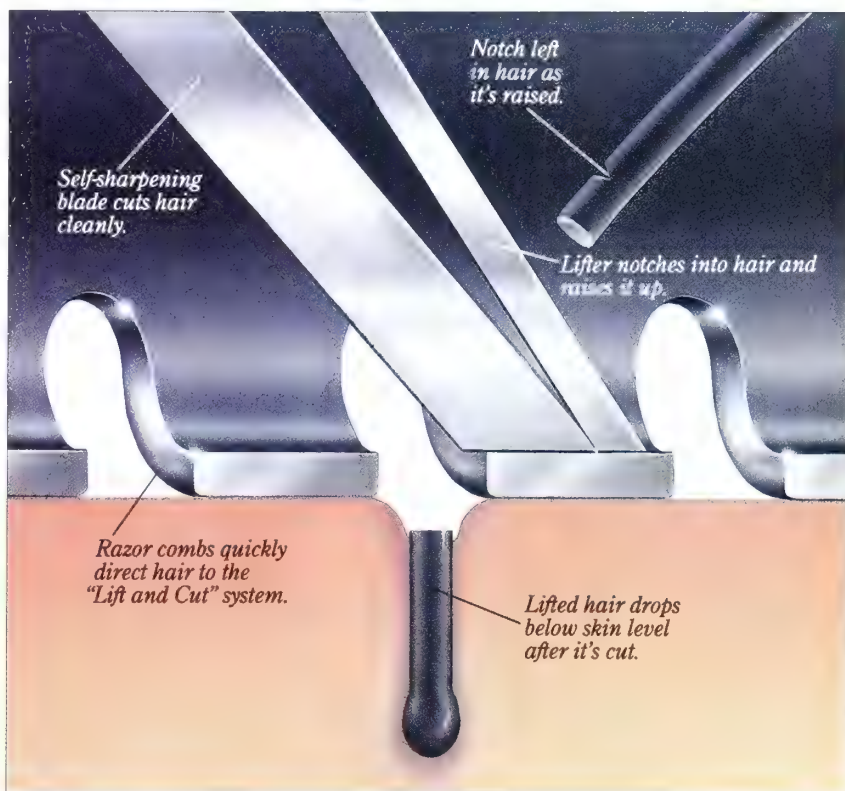
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★ HOW SWEET IT IS: CLINTON
DECLARES VICTORY IN LITTLE ROCK

PHOTOGRAPH BY GARY W. KESSLER

JOB ONE: THE ECONOMY

IT HELPED ELECT CLINTON. NOW, HE MUST GET IT GOING

Many words have been fixtures in the Democrats' dreary political lexicon through their long White House exile. Words like "loser." Or, to cite George Bush, "clown" and "bozo." But until Nov. 3, "landslide" never appeared in any modern Democratic dictionary.

Bill Clinton changed all that on Nov. 3 with a crushing coast-to-coast electoral victory. The man who began his long march to the Presidency from the Arkansas statehouse amid pundits' yawns and Republicans' incredulous stares rolled up a huge Electoral College majority, beating George Bush by 370 to 168. He did it by pounding away at Bush's economic record and by vowing to convert a sputtering economy into a shiny new engine of growth.

Clinton and running mate Al Gore made some history in their election romp. The duo swept the Northeast and Midwest, picking off such Republican strongholds as New Jersey, Ohio, and Missouri. They cleaned up on the West Coast, capturing California, Washington, and Oregon by huge margins. The Democrats also cracked the GOP's grip on the South and Mountain West. Aside from taking their home states of Arkansas and Tennessee, the "Double Bubbas" picked up Georgia and Louisiana. Colorado, New Mexico, and Montana went Democratic, to the amazement of party pros.

ACROSS THE BOARD. Republicans are making much of the fact that Clinton failed to win a majority of the popular vote, besting Bush by only 43% to 38%. One reason for that is Ross Perot. The Texan spent an estimated \$60 million on his independent bid—and captured an impressive 19 million votes (page 33).

But the breadth of Clinton's win was stunning, nonetheless. He rolled up pluralities with most voter groups in nearly all regions. For instance, he persuaded more than 50% of Democrats who had voted for Bush in 1988 to come home.

Clinton won the independents, got a lopsided share of the women's vote, scored well with younger voters, and did better among whites than any Democrat since 1964. Clinton got nearly as many first-time voters as Perot and Bush combined.

Although his voice has been reduced to a raspy whisper, Clinton won't rest for long. Hours after his triumph, he began to confront the central challenge of his Presidency: The same sickly economy that helped him win has now become his greatest enemy. "Clinton has a long list of promises and numbers that don't compute," says Ryal R. Poppa, chief executive officer of Storage Technology Corp., in Louisville, Colo. "Now, he has to deliver."

Two straight months of declines in the index of leading indicators haven't made his job any easier. Yet Clinton is no pump-priming Keynesian traditionalist. His approach relies on years of targeted spending on education, training, and the "knowledge base" of the economy—investment that will pay off only in the long term.

That's not to say that Clintonomics ignores the short term. The centerpiece of his economic-recovery strategy is a double-edged plan that seeks to spur new investment right away, while building for future growth (table, page 32). The key elements, which will be presented in a detailed legislative package soon after the new Congress convenes in January: a tax credit for business purchases of new plant and equipment; \$20 billion a year in infrastructure spending; a new job-training trust fund paid for by employers; overhaul of the health-care system; and Clinton's cherished plan to provide college-education loans for all.

Clinton and his advisers promise to pay for all this and still come up with a newly explicit plan to halve the deficit over four years. Says Clinton Policy Director Bruce Reed: "This is going to be the most



★ THE PRESIDENTIAL VOTE ★			
	POPULAR VOTE	STATES WON	ELECTORAL VOTES**
CLINTON	43%	32*	370
BUSH	38%	18	168
PEROT	19%	0	0

*PLUS THE DISTRICT OF COLUMBIA DATA: ASSOCIATED PRESS **270 NEEDED TO WIN

Cover Story

ambitious 100 Days since Roosevelt."

The trick will be to put together a responsible package. After 12 years of divided government, Capitol Hill Democrats have a huge wish list. And though Democrats are delirious in victory now, many of the party's interest groups, among them gay activists, blacks, feminists, and union members, believe they helped put Clinton over the top. They

may choose to overlook the new President's focus on the long haul in favor of calls for instant gratification.

The Clintonites are aware of the pressures—and the risks of yielding to them. If credit markets suspect that a Clinton Administration is caving in to pleas for budget-busting stimulus, interest rates will spike and the dollar will gyrate.

Despite the risks, a surprising number

of corporate leaders are crossing their fingers and cheering Clinton on. "We're looking to the new President with optimism," says Albert Hoser, CEO of Siemens Corp. "He's smart, and he knows business." Corning Inc. Chairman James R. Houghton says: "We do need something to get the economy going again. Maybe [Clinton's] victory will push up consumer confidence."

Although a number of foreign governments remain concerned about the Arkansasian's inexperience, there's plenty of pro-Clinton sentiment overseas, as well. "If you look at what's pulling the world economy [right now], there's only Southeast Asia and perhaps North America," says the president of a large French bank. "If Clinton does boost the U.S. economy, it would be very helpful." And the Russian Parliament greeted Clinton's victory by finally ratifying the Strategic Arms Reduction Treaty.

There are several ways the President-elect plans to boost public confidence over the coming weeks. For starters, he will make an early announcement of his key economic appointments (page 36). "At Treasury," a key aide promises, "you'll see a person who engenders instant business confidence."

'FIRST PRIORITY.' But confidence must be earned by President Clinton's legislative mastery—and by the effectiveness of his interconnected economic proposals. He'll try to push both his recovery plan and a deficit-reduction strategy in tandem. But there is no doubt which one tops his immediate agenda. "My first priority," Clinton says over and over, "is a jobs and incomes program."

That means a tax bill built around a permanent investment tax credit for business purchases of new equipment. The Clintonites hope that proposal alone will add nearly 1 million jobs over the next two years. They'll also include a cut in capital-gains taxes for owners of startup businesses, and, very likely, a boost in the earned-income credit to reduce the tax burden on the working poor. It will be paid for, as Clinton has said for months, with rate hikes on taxpayers earning \$200,000 a year or more and by increasing taxes on foreign corporations that do business in the U.S.

Clinton's recovery program will also include a \$20 billion-a-year boost in government spending for public works. He will want to spend some of that money right away by increasing funding for existing roads, bridges, and mass-transit programs. "The idea is to provide a bang to the economy," says Clinton economic adviser Gene Sperling, "not by increasing consumption but by investing in things you've got to do anyway."

The third leg of the plan will concen-

CLINTON'S PRIORITIES



★ **FIXING A HOLE: THE NEW ADMINISTRATION PLANS TO SPEND BIG ON INFRASTRUCTURE**

THE FIRST 100 DAYS

PRIVATE INVESTMENT A tax credit for business purchases of new equipment, a capital-gains tax cut for investment in startup companies, an extension of the research and development tax credit for business

PUBLIC INVESTMENT \$20 billion a year in new money for public infrastructure, including roads, bridges, and environmental clean-up technology. Shift defense research to high-tech civilian programs

TAXES A tax rate hike for couples earning \$200,000 or more, a millionaire surtax, and new taxes on foreign companies doing business in the U.S. Modest middle-class tax cuts, expanded earned-income tax credit for the working poor

EDUCATION AND TRAINING Federal aid for college tuition, a national apprenticeship program in high-skilled jobs, and a requirement that businesses set aside 1.5% of payroll for worker retraining

HEALTH CARE Develop a detailed plan for universal health coverage and cost containment. Encourage use of managed-care networks. Clinton has not yet said how he plans to finance this system

ON THE BACK BURNER

TRADE Wrap up the North American Free Trade Agreement, adding beefed-up environmental safeguards. Expand retraining for U.S. workers displaced by NAFTA

THE BUDGET Move to halve the deficit in four years. New defense cuts, possible domestic cuts. Clinton may also shift priorities by redefining the budget

SOCIAL PROGRAMS Mandate family leave, reform the welfare system, expand local police forces, expand training programs

LABOR RELATIONS Jawbone for greater labor-management cooperation, limit tax breaks for executive pay over \$1 million



★ **COSTLY THERAPY: TO PARE THE DEFICIT, CLINTON MUST CUT HEALTH-CARE COSTS**

DATA 8W

rate on education and training, including financial aid for college students, worker retraining, and apprenticeship programs. The Clintonites are counting on these "human capital" investments to boost U.S. competitiveness. But the results may be years away. "The danger is that everyone expects quick returns," says Van Doorn Ooms, senior vice-president of the Committee for Economic Development. "These things have very long-term payoffs."

Clinton also may show surprising vigor in his assault on the deficit, an issue he soft-pedaled during the campaign. Clinton is no deficit hawk, and he firmly believes that economic growth is the best road to fiscal responsibility. Yet while it's unlikely that serious deficit-reduction would bite before fiscal 1994, which starts next October, Clinton knows the markets expect him to put a plan on the table right away.

The President-elect has taken to heart the painful lesson he learned last month, when long-term interest rates shot up on fears that Clinton planned a costly new stimulus program. "If you don't do a fiscal-stimulus package in combination with longer-term deficit reduction, you could scare the hell out of the financial markets," says Urban Institute economist Isabel Sawhill. "It could all be counterproductive."

SURPRISE? As it is, Clinton has little maneuvering room. He has promised to reduce the red ink by half in four years. That's tough enough, but he also has proposed \$220 billion in new investment incentives and spending programs. And he has all but acknowledged that the limited tax increases he has proposed won't cover the tab. What will he do?

Clinton aides are divided on the answer, but there are indications that the new President will surprise both friends and foes by cutting spending even more than he has acknowledged. Clinton has dropped hints that he would pay for part of his infrastructure program by wiping out some congressional pork. He already has promised to cut planned defense spending by \$50 billion more than Bush would have over four years.

The President-elect also has dropped hints that he may tackle programs such as medicare and farm subsidies. Some observers believe that only a Democratic leader can get a handle on medicare, Medicaid, and the other so-called entitlement programs. Says former Reagan economist William Niskanen: "There is his sense of Nixon going to China."

Clinton may well shift spending priorities by redefining the budget. Aides are considering sending Congress separate budgets for operations, investment, and past obligations, such as the savings-bond-loan bailout. That might give Clinton the leverage he needs to cut discretion-

NOW, WHO WILL HARNESS PEROT'S THIRD FORCE?

Is this the end, or just the beginning?" insurgent Ross Perot asked his cheering supporters on election night. Whatever the Dallas billionaire's personal intentions, political pros are convinced that the forces unleashed by his extraordinary candidacy aren't going away. And if the major parties don't respond to the disgust that millions of Americans feel toward the political system, Perot's success could be the start of a "third force" movement unlike anything in American politics since the turbulent birth of the Republican Party in the 1850s.

Perot won a higher percentage of the vote than any third-party candidate since Robert LaFollette in 1924. Other signs of discontent abounded: Voter turnout was up for the first time since 1972. And while anti-incumbent fervor fizzled out in House and Senate races



If Clinton succeeds in the White House, he could mold a majority of today's fluid electorate into a new, dominant Democratic coalition. But success is far from assured. "You have this huge group of people who are disgusted with both parties and may be entering a stage of ongoing insurgency," argues Republican analyst Kevin Phillips. "If Clinton doesn't put the economy on an even keel and get the country moving again, you will see this third force emerge."

Traditionally, third-party movements are short-lived, usually because a major party co-opts their cause. And the Perotistas couldn't have captured the public attention without Perot's willingness to spend tens of millions promoting his cause. No one knows how long Perot, whose attention span can be short, will continue to bankroll his United We Stand movement. "His goal

was never to be President," says Ross Perot Jr. of his father. "His goal was and is to help this country."

But Perot isn't the only promoter of the Third Force. Connecticut Governor Lowell P. Weicker Jr. plans to work with his fellow independents to seize Perot's momentum at a Nov. 16-17 convention in Washington. They are hoping to gain the support of fiscally conservative Democrats, many of whom sup-



★ ELECTION NIGHT: PEROT WITH WIFE MARGOT

(page 34), voters in 14 states imposed term limits on their members of Congress (page 38). "Something is going on here," says Claremont McKenna College political scientist John J. Pitney Jr., an expert on third parties. Adds Joe Canzeri, a longtime GOP operative who worked for Perot: "The silent majority is coming out of hiding."

EASY UPGRADE. The Perot surge was not the only sign of voter volatility. Young voters showed that, in a high-tech age, they can switch party affiliation as easily as they buy better software. The young adults who flocked to Ronald Reagan and George Bush in the 1980s were ready to support Bill Clinton because he offered himself as a "new kind of Democrat," an upgrade that seemed worth installing.

ported former Senator Paul E. Tsongas in the primaries, as well as Republican moderates alienated by their party's rightward lurch (page 41).

The Third Force needs a powerful figure at the top, though. Insurgencies in American politics have always depended on charismatic leaders. Perot's followers were prepared to overlook his idiosyncracies because he had convinced them that he was the only candidate telling the truth. While he didn't win a single state, dissatisfaction still seethes among the electorate, and voters' demands for accountability in government aren't going away. Democrats and Republicans can ignore the forces Perot embodied only at their peril.

By Douglas Harbrecht in Washington, with Wendy Zellner in Dallas

ary spending and, not incidentally, stave off GOP efforts to saddle him with a balanced-budget constitutional amendment. The idea: accept an amendment requiring balance only in the nation's operating budget—the same requirement most states impose on their governors.

Clinton's stress on public investment as the spark plug of growth represents a radical departure from Reagan-Bush laissez-faire. So does his trade policy. While he is loath to use the term, the Arkansan plans to put in place an industrial policy that will steer U.S. investment into critical technologies and try to stoke up civilian research and development. On the trade front, Clinton has promised to push for ratification of the North American Free Trade Agreement, but he'll seek more assurances from Mexico on worker and environmental protection.

UNCANNY EMBRACE. Both domestically and internationally, this blueprint for change is extraordinarily ambitious, even for a policy wonk such as Clinton. It all risks flying apart if, as President, he falls back into his campaign pattern of trying to appease incompatible factions. But it is part of Clinton's magic—and a key reason for his election triumph—that he has an uncanny ability seemingly to embrace all points of view.

It's not Clinton's political skills that are in question. What remains unknown is whether he can cut through his bundle of good intentions, alienate some powerful allies, and retain his relentless focus on long-term investment.

Weeks before the election, Clinton struggled to cool the public's clamor for a rapid economic upturn by cautioning that it will take years to climb out of the dark pit dug by Ronald Reagan and George Bush. Amazingly enough, many voters seem to be buying it. Says Ann Pallante, a Philadelphia hospital worker who caught a glimpse of Clinton at a local diner: "He's not a miracle man. He won't change things overnight."

If that tolerant view takes hold, Clinton may have a chance to put in place his methodical, step-by-step approach to economic growth. Heretofore, patience has not been a prominent feature of the American character. So Cheerleader-in-Chief Clinton will have to keep up his marathon stumping to rebuild a nation's shaken confidence in its economic future. If Clinton can pull off that feat—and his investment strategy works as planned—Democrats may find a new name for a White House that for so long has been just a tourist attraction to them. That name is "Home."

By Howard Gleckman in Washington, with Susan B. Garland in Little Rock, Dean Foust in Houston, and bureau reports

THE CONGRESS



★ BOXER AND FEINSTEIN: WOMEN AND MINORITIES MADE BIG INROADS AMONG DEMOCRATS

NEW KIDS ON THE HILL

A gung ho gang of neophytes could galvanize Congress

Through the long evening of Election Day, the denizens of Capitol Hill had to keep pinching themselves to make sure they weren't dreaming. The day of reckoning turned out to be more like some strategic acupuncture than the expected bloodletting. Rather than ousting House and Senate incumbents wholesale, voters embarked on a search-and-destroy mission. When the votes were in, only 23 House members had lost, mostly scandal-tainted check-bouncers and victims of hostile redistricting plans. And just three senators were casualties.

But appearances can be deceiving. Although the turnover turned out to be far smaller than expected, the new Congress will be a different place. True, with one of their own in the White House, congressional Democrats no longer have to focus on overriding vetoes and checkmating the President. But the new Democrats bring their own agenda to Washington, which could spell trouble for President-elect Clinton and congressional leaders.

And beneath the surface calm—the alignment of 259 Democrats, 175 Republicans, and 1 independent shows almost no change—the composition of the House membership has changed drastically. More than half of the 67 new Dem-

ocrats are women or minorities. Nearly all of the 42 new GOP members are white, but just three are women.

The Democrats gained one seat in the Senate, taking their margin—for now—to 58-42 (Georgia Democrat Wyche

Fowler Jr. must survive a Nov. 24 runoff against Republican Paul Coverdell). The number of Senate women jumped from two to six. Democrats Dianne Feinstein and Barbara Boxer won

the two California seats, and Carol Mosley Braun (D-Ill.) became the first black woman elected to the Senate. "It's a new day in America," says Braun.

FRUSTRATION. That's a bit of postelection hype. Still, the change will have a dramatic effect on legislation. With both Congress and the White House firmly in their control, Democrats won't settle just for giving speedy consideration to Bill Clinton's economic program (page 30). They'll go to work immediately on their own long-frustrated agenda. At the top of the list are family leave, full funding of Head Start, new tax credits for child care, and, most controversial, a law guaranteeing a woman's right to abortion. All are likely to pass, but the new Congress will be far from a knee-jerk liberal institution.

One reason: A lot of veterans won't be around. Among the most notable vic-



ims: Mary Rose Oakar (D-Ohio), felled by 213 bad checks and repeated ethics charges; Thomas J. Downey (D-N. Y.), a senior Ways & Means Committee member done in by a more Republican district and 151 overdrafts; Nicholas Mavroules (D-Mass.), saddled with a racketeering indictment; and Bill Green (N. Y.), one of the House's last liberal Republicans, whose revised district included too many Democratic partisans.

More remarkable, though, is the list of survivors. Not a single member of either party's leadership went down to defeat, despite frenzied Democratic efforts to oust Republican Whip Newt Gingrich (Ga.) and an aggressive GOP assault on House Ways & Means Committee Chairman Dan Rostenkowski (Ill.), Democratic Congressional Campaign Committee Chairman Vic Fazio (Calif.), and even House Speaker Thomas S. Foley (Wash.). The Democratic leaders squeezed through with margins that were uncomfortably close.

Most of those who survived tight House races did so by recognizing early that this year was going to be trouble. They went out and raised huge war chests, then pumped hands and kissed babies with an intensity they hadn't shown since their first race. Representative Charles Wilson (D-Tex.), one of the House's most flamboyant globe-trotters, was picked by many pundits to lose to an aggressive challenger, Donna Peterson. But during the campaign, Wilson stayed close to home. He tirelessly prowled his East Texas district in a motor home, deflecting voters' anger and charming them into returning him with a relatively comfortable margin.

WINNING AND MISS. Ironically, Ross Perot's insurgency may have helped officeholders of both parties. Although political scientists had predicted that Perot backers would slash and burn all incumbents, their fury seemed to be spent by casting a protest vote for President. "A lot of the anti-incumbency votes went to Perot, and they didn't go down the ticket," says one Republican strategist.

With far more to lose, Democrats found the fading of the anti-incumbent spirit especially welcome. Early in the campaign, the GOP hoped to pick up more than 40 Democratic seats as a result of well-publicized House scandals, redistricting plans favorable to Republi-

cans, and the general throw-the-bums-out mood. In the end, however, Republicans gained just nine seats. "A minority party rarely has an opportunity like this to make significant gains," says Carleton College political scientist Steven Schier. "They swung and missed, and it's going to have long-term negative implications for the party."

Still, with a record number of retirements, nearly one-fourth of the House members who will assemble for organi-

from participating in a planned December bipartisan conference of newcomers.

Republicans face some tough decisions of their own. For the past decade, the GOP minority in the House, abused by the Democrats and largely ignored by the White House, has resorted to nihilist bomb-throwing. In the new environment, does the GOP try to cooperate with Clinton on middle-of-the-road, bipartisan solutions to tough issues such as health care and campaign finance reform? Or does it revert to form and descend further into irrelevancy? "The American people are demanding change," says GOP consultant Jay Severin III. "Republicans run the risk of looking like obstructionists, the last vestiges of the hated gridlock."

YOUNG TURKS. House Minority Leader Robert H. Michel (R-Ill.) inclines toward conciliation. But younger House Republicans are demanding more aggressive action, not Clinton-coddling. After Michel talked of the need to work with the new Administration, GOP Young Turks threatened rebellion. "We have to clean house a little bit in the Republican leadership," warned Representative Richard J. Santorum (R-Pa.).

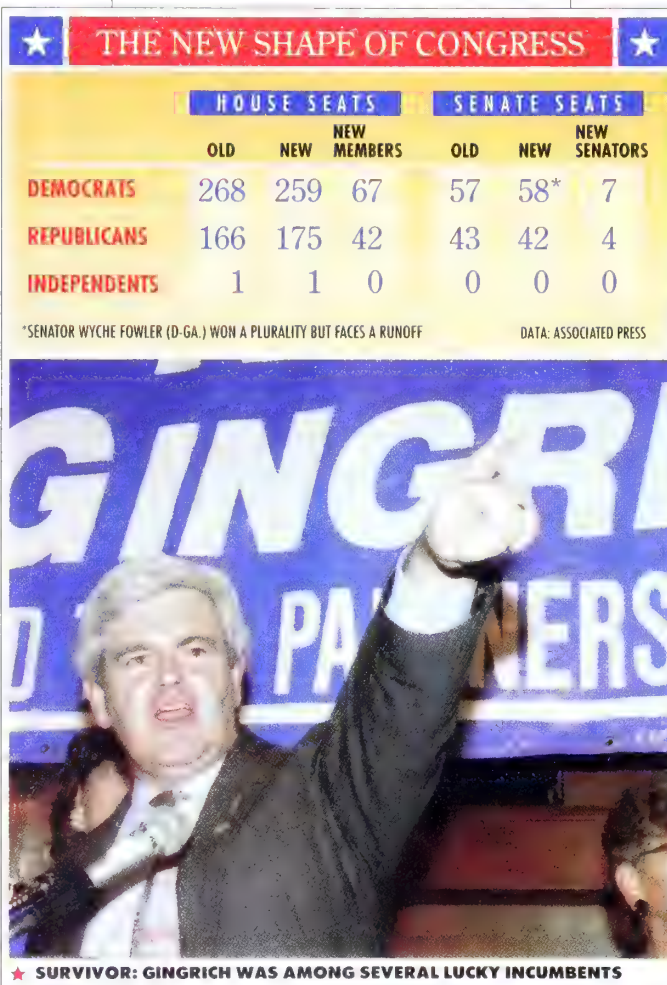
The choice the GOP makes will be critical to Clinton's legislative strategy. If the self-styled "New Democrat" is to wear his party from its liberal past, he will have to do battle with the left wing on the Hill. Success will require winning Republican votes to bolster a coalition of Democratic centrists and conservatives.

A hard line could force Clinton further to the left than he wants to go. Representative

Charles W. Stenholm (Tex.), a conservative Democrat, warns that the President-elect needs the GOP if he is to resist the liberal Democrats' agenda. "It's a bad sign if the Republicans are totally obstructionist from the word 'go,'" says Stenholm. "The Democrats have the votes to prevail. But that's not in the best interests of the country."

In the end, however, it's up to the Democrats to make Congress work again. "We've got the burden," says Senator Harris Wofford (D-Pa.). "We have to stand and deliver—or blow and face the music." Spoken like a man who believes anti-incumbent fury will easily flare again.

By Richard S. Dunham in Washington, with Stephen Baker in Pittsburgh and bureau reports



★ SURVIVOR: GINGRICH WAS AMONG SEVERAL LUCKY INCUMBENTS

zational meetings next month will be first-timers. That, inevitably, has set off speculation about possible changes in leadership on both sides of the aisle.

Although Foley and House Majority Leader Richard A. Gephardt (D-Mo.) probably won't be challenged, the leadership is nervous. No one knows just what to expect when the new class hits Washington, but there's talk that the Democratic caucus will try to topple a committee chairman or two. The most vulnerable: Appropriations Committee Chairman Jamie L. Whitten (D-Miss.), 82 years old and ailing.

To forestall any freshman pranks, House Democratic leaders have scheduled a series of conferences with the incoming representatives. And they are discouraging the first-term Democrats

THE EARLY LINE ON A CLINTON ADMINISTRATION

Some favorites, long shots, and dark horses for the new team coming to Washington

Decisions, decisions. Whom will Bill Clinton tap for the top posts in his activist Administration? His personnel choices will reveal a lot about his policies. Will Clinton reach out to his Oxford Mafia of old-time friends? Will he feel compelled to reward cam-



paign aides or shower plum jobs on national Democratic nabobs? Only the President-elect, his wife, Hillary, and transition chief Mickey Kantor have an inkling as the Name Game starts in earnest. Here's a roundup of the early contenders:

SECRETARY OF STATE

When it comes to foreign policy, don't look for Clinton to be too daring. His lack of expertise will lead him to consider a number of Democratic graybeards for Secretary of State, among them:



★ CHRISTOPHER FOR STATE?

House Europe & Middle East Affairs subcommittee Chairman **Lee H. Hamilton** (D-Ind.) (serious, liberal); Los Angeles lawyer **Warren Christopher** (savvy No. 2 in the Carter Administration State Dept., headed Clinton's Vice-Presidential search team); Lehman Brothers executive **Richard C. Holbrooke** (most likely pick if Clinton is looking for Asian policy expertise).

CHIEF OF STAFF

The White House Chief of Staff is the President's eyes, ears, and ax. Clinton will want a loyal associate in the job. One possibility: Campaign Chairman **Mickey Kantor**, the L.A. lawyer who helped shape up Clinton's free-form campaign and navigated the candidate through the debates. Others with a shot at key White House jobs:



★ KANTOR FOR CHIEF OF STAFF?

the Clinton campaign's top administrator, **Eli J. Segal**, a Boston mail-order executive, and Arkansas Democrat **Betsey Wright**, a fierce loyalist who greeted dirt-seeking reporters in Arkansas with loads of pro-Clinton statistics.

DEFENSE SECRETARY

Clinton's Pentagon chief will have a tough job dealing with budget cuts and defense-worker retraining. House Armed Services Committee Chairman **Les Aspin** (D-Wis.) may want the job, but his abrasive style is a problem. If Clinton wants to challenge the taboo against

military officers in charge of the Defense Dept., he could go for former Joint Chiefs of Staff Chairman Admiral **William J. Crowe Jr.** And don't count out the current head of the Joint Chiefs, General **Colin L. Powell**. Yes, he says he doesn't want the job. No, not everyone believes him.



★ CROWE FOR DEFENSE?



★ ... OR MAYBE POWELL?

TREASURY SECRETARY

Robert E. Rubin, co-chairman of Goldman, Sachs & Co., was an early Clinton backer and raised loads of money. Rubin thinks Clinton must develop a broad deficit reduction plan to calm financial markets. He could be headed for Treasury. Also mentioned for the slot: NationsBank Chairman **Hugh L.**



★ RUBIN FOR TREASURY?

McColl, who has known Clinton for years. Dark horse Texan **Lloyd Bentsen**, the pro-business chairman of the Senate Finance Committee (he knew Andrew Mellon. Andrew Mellon was a friend of his...). Even darker: Former Fed Chairman **Paul A. Volcker**, some on Wall Street insist would take the job.

TRADE MAVEN

With his emphasis on competitiveness, Clinton's choice of a trade representative will be critical. He may reach back into the Reagan Administration to pick former Commerce Dept. official **Clyde V. Prestowitz**. He's an advocate of tough action to pry open Japanese markets. Former Carter Administration



★ CISNEROS: TRADE? COMMERCE?

trade negotiator **Alan W. Wolff**, who represents U.S. steel and semiconductor makers, is a contender, as is **Glen S. Fukushima**, who's with AT&T in Japan. Former San Antonio Mayor **Henry G. Cisneros** pops up as a possibility for both the trade job and as Commerce Secretary (right). And former International Trade Commission Chairman **Paula Stern** rates a mention.

OMB DIRECTOR

Can Clinton say "no" to party interest groups? He'll have to prove it with his critical choice for Director of the Office of Management & Budget. Most early OMB candidates are budget hawks. House Budget Committee Chairman **Leon E. Panetta** (D-Calif.) has compiled a long hit list of outdated programs.



★ RIVLIN FOR OMB?

Congressional Budget Office Director **Robert D. Reischauer** has a similar bent. Two unconventional choices: Brookings Institution economist **Alice M. Rivlin**—an ex-CBO head—and Eastman Kodak Vice-President and former Perot adviser **John P. White**.

COMMERCE SECRETARY

For the Commerce Dept., Clinton may want a top business executive to help devise an aggressive new U.S. industrial strategy. Sara Lee CEO **John H. Bryan**, who stumped for Clinton, could get the nod. Bryan led business support for the 1986 tax-reform legislation. If Clinton goes the high-tech route, he may look to Hewlett-Packard President **John A. Young**, a competitiveness hawk and leader of a group of Silicon Valley execs whose endorse-

ment gave Clinton a big boost. Another member of the Silicon Valley mob, Apple Computer CEO **John Sculley**, is also getting a close look from Clinton aides. Some Clintonites are talking up **Cisneros**, the former San Antonio mayor who's also being mulled for trade. He preaches bootstrap economic development. Long shot: **Warren E. Buffett**, who wouldn't mind a chance to take his mind off his big stake in troubled Salomon Brothers Inc.



★ YOUNG FOR COMMERCE?

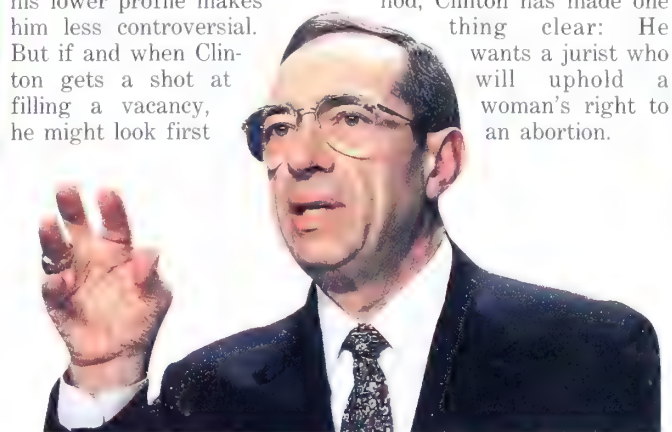


★ ... OR MAYBE BRYAN?

SUPREME COURT JUSTICE

Ever since he mused out loud about the possible appointment of New York Governor **Mario M. Cuomo** to the U.S. Supreme Court, Clinton has been reluctant to comment on his high court preferences. Harvard Law School's omnipresent **Lawrence H. Tribe** would be on the list. Duke University law professor **Walter Dellinger** holds liberal views similar to Tribe's, but his lower profile makes him less controversial. But if and when Clinton gets a shot at filling a vacancy, he might look first

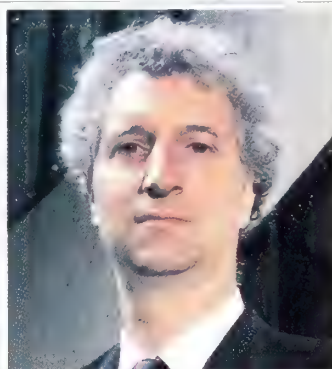
to an A-list of federal judges, among them **José A. Cabranes**, Chief Judge of the U.S. District Court in New Haven, **Amalya Lyle Kearse**, of the Second Circuit Court of Appeals, in New York, **Richard S. Arnold**, Chief Judge of the Eighth Circuit Court of Appeals in Dallas, and **Stephen G. Breyer**, Chief of the First Circuit Court of Appeals in Boston. Whoever gets the nod, Clinton has made one thing clear: He wants a jurist who will uphold a woman's right to an abortion.



★ CUOMO IS NOT THE ONLY CONTENDER FOR THE SUPREME COURT

ECONOMIC ADVISERS

Appointments to the Council of Economic Advisers could be a crucial early indicator of how Clinton will resolve the debate over spending priorities and the need for economic stimulus. Campaign econo-wonk **Robert J. Shapiro**, one of the most market-or-



★ MAGAZINER FOR THE CEA?

iented of Clinton's advisers, is a contender. More interventionist choices: Harvard's **Robert B. Reich**, an industrial policy guru and fiscal-stimulus advocate, and Rhode Island consultant **Ira Magaziner**. Also interested: **Lawrence H. Summers**, the World Bank's brash chief economist.

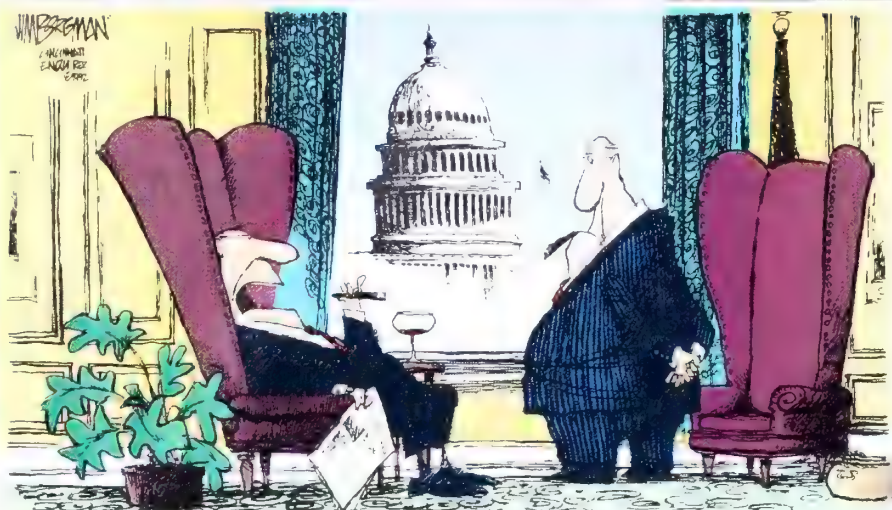
HHS SECRETARY

Clinton looks to state capitol for the real talent in government. That's where he found **Joycelyn Elders**, head of the Arkansas State Health Dept., who could become Health & Human Services



★ EDELMAN FOR HHS?

Secretary. Children's Defense Fund President **Marian Wright Edelman**, a close friend of Hillary Clinton, is another HHS contender. Other domestic-policy candidates: Occidental College professor **Derek N. Shearer** and former Ohio Governor **Richard F. Celeste**.



"I WON ON MY SUPPORT FOR TERM LIMITS, SO I ONLY HAVE SIX YEARS TO FIGURE OUT HOW TO ENTRENCH MYSELF"

INCUMBENTS, GAY RIGHTS, SPENDING, AND BLACK BEARS

In the electorate's clearest statement, 14 states passed term limits

Political incumbents who survived a voter drive to "throw the rascals out" may be savoring only a temporary victory. Term-limitation initiatives were the most prominent of a host of ballot referendums throughout the states. And the limits passed in all 14 states where they appeared on the ballot—most by huge margins.

That doesn't mean incumbents are going to go without a fight. After Florida voters passed the state's "Eight is Enough" amendment, which limits state legislators and congressional representatives to 8 years and U.S. senators to 12, former State Representative Barry Richard filed suit in U.S. District Court in Tallahassee. He wants to invalidate the term-limits measure on consti-

titutional grounds. "I don't think we can change the balance of Congress one state at a time," he says.

Voters may not have to. Former Colorado State Senator Terry Considine is organizing support for a constitutional amendment that would set term limits once and for all. A Republican who was defeated on Nov. 3 by Ben Nighthorse Campbell in Colorado's U.S. Senate race, Considine and his Americans

Back in Charge Committee are working to introduce such a measure in all 50 state legislatures by the end of January.

Business fared better than incumbents in the wide array of measures on state ballots this year (table). California's "Soak-the-Rich" proposition, which would have hiked taxes on business and

the wealthy, was defeated. So were two environmental measures that industry fought vigorously: In Massachusetts, voters nixed a rigorous initiative that would have required recycling of packaging. Opponents, including food marketers and chemical and plastics companies, spent more than \$4.5 million to defeat it. And in Ohio, voters rejected a measure that would have required producers of consumer goods to list cancer- or birth-defect-causing chemicals on package labels. Consumer-products companies and retailers convinced Ohio voters that the initiative would cost jobs.

SUICIDE. Voters weren't in the mood to endorse spending hikes, either. Connecticut residents limited future increases in state spending to the growth rate of either the consumer price index or of their personal income. And Coloradans, who had turned down tax-limitation initiatives twice before, this year voted yes. New Yorkers nixed a plan to borrow \$800 million for public-works projects.

The nation's electorate was less consistent in its reaction to an array of emotional social issues. A controversial anti-gay measure in Oregon that would have condemned homosexuality as perverse, and might have forced the state to fire gay and lesbian teachers, was defeated by a margin of 57% to 43%. That margin was wider than expected, says a spokeswoman for the "No on Nine" campaign against the measure. But in a surprise vote, Coloradans passed a measure banning protective status for gays. Polls had shown the issue would lose, and angry homosexuals staged a midnight march on the state capitol.

Maryland voters, meanwhile, approved a measure reaffirming a woman's right to abortion. But the Catholic Church won a battle in California, where a measure to make physician-assisted suicide legal for the terminally ill was defeated after a last-minute advertising blitz, funded in part by the Church.

Maybe the clearest winners on state ballots this year were Colorado's black bears. By a margin of 2-to-1, voters agreed to end spring bear hunts.

By Sandra Atchison in Denver, with bureau reports

★ HOW THE VOTERS DECIDED BALLOT MEASURES

TERM LIMITS

14 state ballots included measures to limit the terms of state and federal elected officials. The initiatives passed in all the states

TAXES AND GAMBLING

A cigarette tax hike of 25¢ passed in Massachusetts. Three states approved a lottery. California rejected a measure to impose stiff tax increases on business

CONSUMER ISSUES

Massachusetts defeated a measure that would have required recycling of packaging materials. Ohio voters rejected a proposal requiring labels on consumer products to note the presence of carcinogens

SOCIAL ISSUES

Voters in Colorado passed a measure rescinding laws that protect gays and lesbians from discrimination. Oregonians rejected a similar proposal

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Commentary/by Lee Waleczak

GEORGE BUSH JUST DIDN'T GET IT

George Bush has been part of America's psyche for so long, it's hard to believe that come Jan. 20, he'll trot out onto the White House lawn, board a helicopter, and be gone. For 12 years, Bush starred in his own sitcom: *Life With George*. There goes George, hobnobbing with foreign leaders in Bonn—or is it Brussels? There he is, racing his speedboat Fidelity through the Maine waters. There he is again, bounding home to Bar and Millie after a hard day at the Oval Office: "Honey, I'm home! Had the most dreadful day wrestling with that darned recession thing."

The nation that canceled George Bush's second season did so more in sorrow than in anger. Unlike Richard Nixon, a President whose cunning Bush greatly admired, he will not depart as a hated symbol of moral weakness. Bush was a good man, an honest man, and a foreign-policy natural, people will say. But as a leader he seemed so weak, so whiny, so out of touch with the economic angst gripping the vast American studio audience.

WEARY. Bush's rejection unleashed a flood of emotions at the White House, but surprise isn't one of them. Like a weary production crew watching steadily declining ratings, the President's aides have known for months that the sour economy made reelection a long shot. Long before the ballots were cast, they were leaking, backbiting, laying blame, and spinning theories to explain defeat.

The theorists fall into two camps: those who score Bush for veering from his moderate instincts into the clutches of the Far Right, and those who believe that true-blue conservatism would have given him the principled core he seemed so conspicuously to lack.

A senior Bush aide in the former group asks: "What did it buy us to pander to the Right? It bought us Pat

Buchanan's challenge in New Hampshire." Worse, laments a campaign official, "we lost the election when we lost the suburbs. We just got creamed among working women because we were antichoice, opposed family leave, and preached family values."

Conservatives, among them Housing Secretary Jack F. Kemp and former Minnesota Representative Vin Weber, vehemently disagree. Bush blew it, they insist, when he rejected repeated appeals for tax cuts and a conservative war on poverty. Kempites feel Bush should have sacked Treasury Secretary Nicholas F. Brady and Budget Director Richard G. Darman, architects of his 1990 tax flip and the "stay the course" approach to the recession. He should have replaced them, they add, with pro-growth advisers such as—well, Kemp and Weber. "The coun-

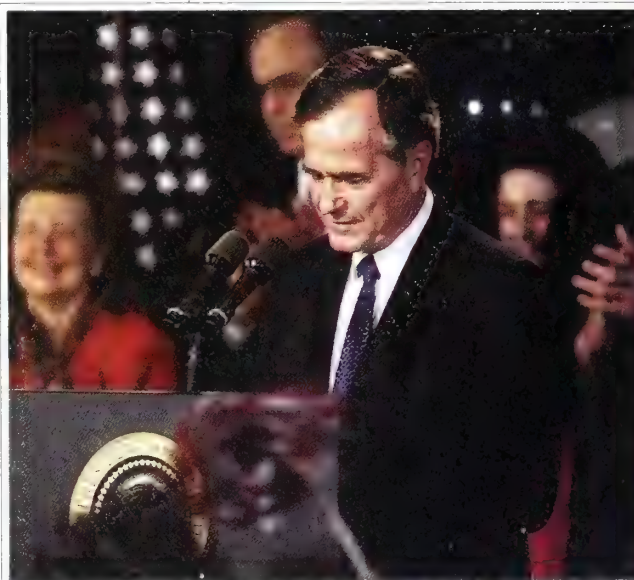
try to restore public confidence, he's a guy who sees a ray of sunlight, panics, and starts beating down growth."

Lost in the recriminations are other reasons for Bush's demise. First, the biggies: Bush sowed the seeds of his 1992 defeat in his vacuous 1988 campaign. The hollowness of his "read my lips" pledge foreshadowed his team's failure to lay out a coherent domestic policy. And when it came to the limping economy, as late as his January, 1992, State of the Union address Bush was convinced that symbolism, rather than a jolt of stimulus, would suffice.

HACKS. Don't forget personnel. There was the puzzling selection of Dan Quayle for Vice-President. Outside of a few classy Cabinet picks, Bush's team was laden with Beltway hacks. The President was so sure of his own abilities that he made two dreadful choices for White House Chief of Staff: John H. Sununu and the fog-enshrouded Samuel K. Skinner. During Bush's periodic lunges for a domestic agenda, no one was around who could deliver.

Bush lost because he ran an abysmal 1992 campaign launched by a convention whose shrill, hard-right tone alarmed centrist voters. Neither James A. Baker III nor Campaign Chairman Robert Teeter, masters at cutting up hapless liberals, knew how to run a positive campaign against an armor-plated moderate. And Bush lost because, as one of the last leaders of the World War II era, he seemed blind to an entire generation, to working mothers, young job-seekers, and Baby Boomers, blind to the everyday concerns of electorate.

He doesn't get it, millions of voters said well before Nov. 3. Maybe he never will. And one by one, they turned off one of the longest-running shows in modern politics, watching as George Bush's image grew small, smaller, and then vanished into a tiny point of light.



★ BUSH CONCEDED: HE WAS A GOOD MAN, AN HONEST MAN, A FOREIGN-POLICY NATURAL, PEOPLE WILL SAY. BUT HE SEEMED WEAK, WHINY, OUT OF TOUCH WITH AMERICA'S ECONOMIC ANXIETY

try elected Bush to continue Reaganism," Weber reasons. "He lost because so many people around him felt they had to discredit Reagan's policies."

Darman and Brady differ. A source familiar with the duo's thinking pinpoints as a key date in Bush's defeat July 10, 1991—the day he reappointed Alan Greenspan as Federal Reserve Chairman. "We're in the seventh straight quarter of growth, yet consumer confidence is at deep-recession levels," says the official. "I fault the Fed Chairman. Instead of being a voice

A TATTERED GOP STARTS THINKING ABOUT TOMORROW

A bloody fight for succession is in store for the Republicans

Surveying the wreckage of George Bush's Presidency, Republicans aren't wasting time shedding tears. Instead, they're sharpening their knives for what promises to be the bloodiest succession fight since Barry Goldwater's 1964 drubbing.

There always are recriminations after a Presidential defeat. But this time the fight will be extra nasty: The party Bush leaves behind is in much worse shape than the one he inherited in 1988. Back then, Bush presided over a fragile but potent coalition assembled by Ronald Reagan. Under the banner of low taxes, smaller government, and assertive foreign policy, young voters joined with suburbanites; urban blue-collar Catholics bonded with Southern good ol' boys and fundamentalist Christians. The combination supposedly gave the GOP a lock on the White House.

But in just four years, Bush may have gravely damaged his party's prospects.

victim of the power struggle. Quayle's hopes for 1996 are pinned on his high-decibel debate performance and his high-intensity campaigning for the GOP ticket. But party activists are in no mood to march behind a crippled elephant. "We

have to eliminate Dan Quayle as heir to the conservative wing of this party," says Texas conservative activist David Rucker. "He's a creation of George Bush." The Bush-Quayle team at the Republican National Committee will vanish swiftly, with former Minnesota Representative Vin Weber, a supply sider, the most likely new chairman.

The party's best-organized faction is the Christian Right. Although it dominated the GOP convention, it's the least likely to field a successful candidate. Led by Pat Robertson's Christian Coalition, fundamentalists now control state parties in Georgia, Iowa, and Minnesota and are winning local offices as well. But Establishment Republicans fear that

Paul M. Weyrich. But "we need a broader base than just the Religious Right."

The two pols who may have the best shot at expanding the GOP's reach are Housing & Urban Development Secretary Jack F. Kemp and Texas Senator Phil Gramm, who are fierce rivals. Supply sider Kemp, who extols stimulative tax cuts and bootstrap capitalism, feels his "bleeding-heart conservatism" will attract Democrats and independents. Gramm is a budget-balancing traditionalist. The Texan's backers charge Kemp with treason for leaking his economic prescriptions after the White House had rejected them.

KEEN ON KEAN. Moderates, meanwhile, argue that their champions are best able to capitalize on the public's new activist mood. They're heralding Massachusetts Governor William Weld, former New Jersey Governor Thomas H. Kean, and battered California Governor Pete Wilson as future stars. Trouble is, their permissive social views and economic pragmatism remind right-wingers a little too much of a loser with a high-pitched whine and a dog named Millie.

Probably the GOP's best chance for picking itself up off the canvas lies with the statehouse conservatives, exemplified by popular Governors Carroll A. Campbell Jr. of South Carolina, Tommy G. Thompson of Wisconsin, and Michigan's John Engler. These savvy politicians run conservative regimes in states that are dominated by Democrats. But

★ RIVALS
FOR THE
SOUL OF
THE GOP



★ QUAYLE: LEFT
HOMELESS BY THE DEFEAT



★ WILSON: A FUTURE
STAR FOR MODERATES?



★ KEMP: HE MAY EXTEND
THE PARTY'S REACH



★ BUCHANAN: EYEING A
RUN IN 1996

says University of Virginia political scientist Larry Sabato: "There's an uneasy sense that the conservative and moderate factions of the Republican Party are prepared to step outside the 'Big Tent' and settle this thing once and for all."

CRIPPLED ELEPHANT. Without a clear leader, the party is splitting into fiefdoms: There's the Old Right, the Religious Right, supply siders, old-line deficit-cutters, and a shrinking group of moderates.

Vice-President Dan Quayle, a traditional conservative, has been left homeless by the Bush defeat and may be a

the "Ayatollahs" of social radicalism will alienate key voter blocs—and saddle the GOP with the "special interest" millstone. To win again, "Republicans have to clean house of the Religious Right," says pollster Claibourne Darden.

Cultural warfare, not an explicitly religious social policy, is the focus of another set of conservatives. Fans of Patrick J. Buchanan and former Education Secretary William J. Bennett rail against liberal dominance of the education Establishment, the entertainment industry, and the news media. "The coming battle is cultural," insists conservative activist

do they have enough body armor to bring them unscathed through the Republicans' civil wars?

In the GOP's bleak new world, Bush's embattled moderate wing will be fighting on several fronts at once. The religious and cultural conservatives will try to seize control of the party, while followers of Ross Perot (page 33) grab what they can. In the end, says analyst Kevin Phillips, "there will be nothing left of the Bushies but horn-rimmed glasses and scraps of gray flannel suit."

By Douglas Harbrecht and Richard S. Dunham in Washington



NO PATENTS PENDING: FEW BIG NEW DRUGS ARE IN THE PIPELINE

A BITTER PILL TO SWALLOW

Price-hike limits and slower sales are clobbering drugmakers

After a decade of sizzling growth that turned Bristol-Myers Squibb Co. into the nation's second-largest drugmaker, its executives weren't used to bad news. Maybe that's why Wayne A. Davidson, president of Bristol's pharmaceutical and nutritional group, had such a hard time telling workers that he planned to eliminate 2,300 of their 38,000 jobs: Davidson announced the cut at the very end of an Oct. 29 memo to employees that hailed their "many accomplishments."

He needn't have been so coy. Bristol's paltry 5% gain in earnings for the first nine months of this year is startling evidence that gloom and doom rapidly is becoming business as usual for drugmakers. This year, a half-dozen of them have wrestled with subpar sales, disappointing earnings, or layoffs. "This promises to be among the most trying times for the U.S. drug industry since World War II,"

says Neil B. Sweig of Capital Institutional Services Inc.

Nor will prospects improve any time soon. Washington is insisting that makers of pharmaceuticals contain price hikes—pressure that President-elect Clinton almost surely will intensify. Worse for the long term, drugmakers have few blockbuster products in their pipelines. That's likely to cast a pall over revenues and profits for years. "The in-

dustry is under a lot of pressure," observes Randy Thurman, president of Rhône-Poulenc Rorer Inc., a \$4 billion drugmaker that has shed 1,000 jobs in the past two years.

It's a painful turnaround for companies that handily weathered the economy's dips over the past decade. During the 1980s, drugmakers hiked prices an average of 9.6% annually—more than double the inflation rate. They regularly tallied double-digit gains in annual revenues and profits. And they boosted research and development spending from 11.7% of revenues in 1980 to 16.1% today.

Now, cost-cutting to fend off hard times is becoming routine in the drug biz (table). At Eli Lilly & Co., write-offs dealt the company a \$269 million loss in the quarter ended Sept. 30—its first quarterly red ink in more than 30 years. And Syntex Corp. eked out a disappointing 9% rise in its fiscal fourth-quarter earnings. Syntex has announced a plan to downsize, either through layoffs or attrition, while Lilly plans to streamline manufacturing. Even industry leader Merck & Co., keen to maintain its 17% third-quarter growth in earnings this year, has been shrinking its 2,800-member sales force.

Some drugmakers are making cuts to deal with an accounting change; others no longer need so many salespeople because of the rise in managed-care concerns, which typically buy for hundreds of doctors and hospitals.

OPEN SEASON. But the industry contraction is symptomatic of a much deeper problem: Drugmakers have few blockbuster new products waiting in the wings. That's ominous, since many of the drugs that became stars in the 1980s will lose their patent exclusivity soon. Once patents expire, rivals are free to introduce cheaper versions. Bristol, Syntex, and Upjohn are among the companies whose patents on key products will expire over the next few years.

Already, an estimated 40% of all new prescriptions are filled with low-priced generic versions. That figure could top 50% by 1995, as more drugs become vulnerable to copycats.

Some drugmakers have long masked shortcomings in their R&D by raising prices on existing drugs. No more. This year, Bristol, Merck, and others agreed to limit hikes to the inflation rate in hopes of placating critics in Washington. Those voluntary restraints could become mandatory with the

DRUGMAKERS CATCH A CHILL

BRISTOL-MYERS SQUIBB Plans to cut 2,300 jobs, or 6% of its drug and infant-formula staff, because of slower earnings growth

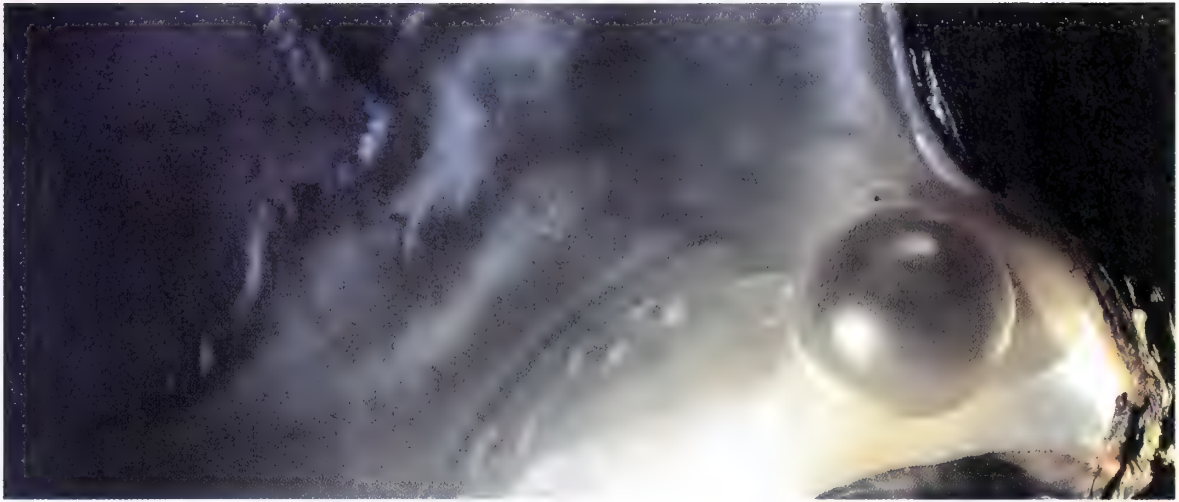
ELI LILLY Plans a restructuring after posting a \$269 million third-quarter loss—the company's first loss ever

MERCK Is shrinking its sales staff by attrition, saying the rise of managed-care buyers requires fewer salespeople

RHÔNE-POULENC RORER Has eliminated 1,000 jobs in two years, thanks to its sale of four European plants

SYNTEX Plans to cut jobs and spending because of slowing sales and the prospect of Naproxen's patent expiration in 1993

WARNER-LAMBERT Will trim 2,700 of 35,000 jobs by 1996, to try to preserve margins



Nature's spectacle offers such a richness of color and texture that man has always dreamt of stealing some of its magic. Throughout every stage of civilization, we have attempted to capture its mystery. We yearn to recreate the smooth perfection of a pearl, the brilliance of a bird's feather, the velvet texture of a petal, or the deep colors of tropical fish. And today, in the form of "High-Reflectivity Coating," the engineers at Mazda are approaching the realization of this dream. "High-Reflectivity Coating" is a new painting process that sheathes cars in colors that are incredibly deep, intense, brilliant and as smooth as a mirror. "High-Reflectivity Coating," you might say, is a reflection of a new perfection in the world of the automobile.

Top of the News

advent of the Clinton Administration.

To boost growth, drug companies are stepping up efforts to buy new drugs developed elsewhere, especially by biotechnology outfits. In August, Lilly purchased marketing rights to biotech start-up Centocor Inc.'s septic-shock drug, Centoxin. Such deals are far less costly than internal development or buyouts of smaller manufacturers.

RETAILING

PRUDENCE ON 34TH STREET

Macy's plan is cautious—but it may still need a miracle

Way back in February, 1991, R. H. Macy announced that it would put an unprecedented \$150 million into television advertising in 1992. Given Macy's staggering debt load and deteriorating sales, the spending seemed outrageous. Never mind, said Edward S. Finkelstein, Macy's CEO at the time. "There's absolutely no reason for any reasonable person to worry about our financial obligations."

Sometimes, unreasonable folks are right on the money. By 1992, Macy's was in bankruptcy and Finkelstein was out of a job. Now, Macy's Co-Chief Executives Myron E. Ullman III and Mark S. Handler, atoning for their former boss's extravagance, promise such inflated promises are behind them. On Nov. 5, they unveiled a five-year business plan that they hope will relieve their creditors' anxiety about Macy's future. "We're not predicting 10% sales growth and margins improving two points," says Ullman. "Our plan is realistic."

NO SPIKE. The plan, released to Macy's creditors' legal and financial advisers, predicts sluggish sales in 1993 and doesn't expect cash flows to return to the heady levels of the late 1980s until 1998 (charts). The figures seem conservative, but many Macy's watchers remain cautious, given Macy's recent, dreadful performance. In its fiscal year ended Aug. 1, the retailer recorded a \$1.3 billion loss on sales of \$6.4 billion. Sales fell 3.7% at stores open a year or more. In September, when back-to-school business usually means a spike in receipts, sales dropped 4.7%.

Ullman and Handler say their plan will fix the chain's problems. Among its main

If any companies are ripe for mergers, it could be the large drugmakers. This year, drug stocks as a group are off 17%—a discount likely to pique the interest of potential buyers. Syntex is down some 57% from its 52-week high of 54¼. Because Syntex is incorporated in Panama, acquirers had shied away from it. But the stock is now so low that "I would not rule out Syntex being ac-

quired," says analyst Christina Heuer of Smith Barney, Harris Upham & Co. Before managements seek rescuers though, they'll try restructuring, joint ventures, and licensing. That means a lot of ferment in an industry that had forgotten how risky the drug business can be.

By Joseph Weber in Philadelphia, with bureau reports



SHOPPERS IN MANHATTAN: CUSTOMER SERVICE WILL BE BOLSTERED

components: slashing Macy's ad budget from over 4% of sales to under 3%. That will help cut operating expenses from 37.2% of sales in fiscal 1992 to 32% by 1998. There will be fewer one-day sales and more-focused promotions: Frequent credit-card users will get more direct-mail promotions than other shoppers.

Inside the stores, Macy's will continue to stock a wide assortment of merchandise but will scale back on private-label goods. Customer service will be bolstered in such departments as designer apparel and luggage and cut back in such areas as junior sportswear. Meanwhile, a computer program developed by rival Federated Department Stores Inc. and a new inventory-management system will let the chain stock and distribute merchandise more efficiently.

None of this is revolutionary: Dillard's

problems are monumental."

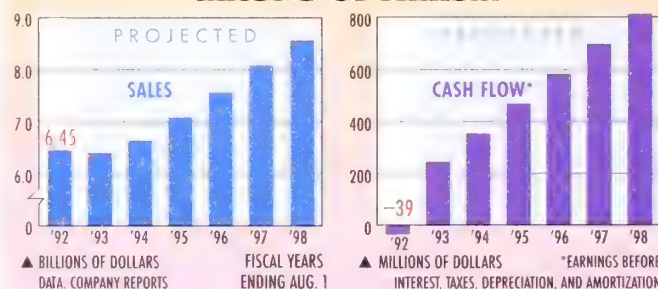
Still, says one board adviser, "they're trying as hard as they can. Ullman has credibility with me." Even Macy's banks continue to be patient: Chemical Bank and Bankers Trust New York Corp., which lead the bank group that holds Macy's \$600 million in bankruptcy financing, have lightened Macy's covenants. Now, Macy's needs to produce just \$42 million in cash flow for the nine months ending Oct. 31, 1993, instead of the \$143.5 million that the covenants originally required.

But many pundits refuse to bank on Macy's future. "I used to love Macy's, it was my favorite place to shop," says Meredith Adler, a high-yield analyst at First Boston. This fall she abandoned Macy's and went to Lord & Taylor.

Convincing shoppers such as Adler to revisit Macy's won't be easy. "This has been a very painful exercise," says Ullman. "We've trailed the industry. But we're trying to return to a leadership position." If the plan works, Macy's, like the Dracula mannequins in its flagship New York store windows, may have its chance to rise from the dead.

By Laura Zinn in New York

MACY'S OPTIMISM





REMY MARTIN *Raise your Spirits.*

Commentary/by Kathleen Kerwin and Thane Peterson

FIXING GM: PAGES FROM A RADICAL REPAIR MANUAL



THE SHAKEUP: NEW CEO SMITH (AT PODIUM) ANNOUNCES THAT GM'S NEW CHAIRMAN WILL BE JOHN SMALE (BELOW)

General Motors Corp. employees must feel as if they have been careening through a test-track slalom course with race-car driver Al Unser Jr. at the wheel. In the past few weeks, under pressure from GM's outside board of directors, Chairman Robert C. Stempel resigned. So did three of his top aides. On Nov. 2, outside director John G. Smale took on the title of chairman of the board, while President John F. Smith Jr. took the reins as chief executive officer.

Nor is the wild ride over yet. The reshuffling of General Motors' top management may have shocked the stodgy company, but it hasn't even begun to get at the root of GM's massive problems. If anything, the company may have created a new set of issues for itself by naming Smale chairman.

SURGERY. One question is how firmly Smith is in charge. Smith insists that he has the board's—and Smale's—full mandate to run the company. But Smale, retired chairman of Procter & Gamble Co., has also been given the power, formally ratified by the board, to call meetings of independent directors. That sends a message that he will step in quickly if Smith seems to falter. Another issue: Will Smith simply have too much to do? Smale's discomfort in communicating with outsiders means that he won't play the key role of public spokesman. GM may not need a Lee Iacocca, but it needs someone to act in that role, and Smith can't do it well while working to turn GM around.

But the Smale-Smith relationship



may be the least of GM's problems. The company still needs desperately to slash costs and reduce overcapacity by padlocking plants and laying off white- and blue-collar workers. It must pare its product lineup and simplify organization charts. And while he's performing this radical surgery, Smith must force a fundamental change in GM's culture by holding managers accountable for their performance while encouraging them to take risks. That means pushing power to make decisions down into the ranks.

All that will take time. Meanwhile, Smith must shock hidebound GM into getting things started. That means thinking in more radical terms. How radical? Some ideas:

- Ditch Electronic Data Systems Corp. and GM Hughes Electronics Corp. Although they are healthy operations, they have become nothing but sorry distractions to the company's core car-making business. GM could use the \$12 billion or so in cash it might raise from the sales for new-product development and to expand aggressively the capacity of the Saturn Corp. division, to take advantage of its market success.

- Sell a stake to the public in both Saturn and GM's European operations, not just to raise cash, but to make them independently accountable.

- Get rid of much of GM's parts-making operations, where many inefficiencies are hidden. GM should sell off everything that fails to provide a key

competitive advantage to its carmaking business. That would free Smith's team to deal with reinventing a new and less vertically integrated company. The sale of those units, of course, needs to be done in consultation with the unions, perhaps even exploring such options as employee-led buyouts. Abrupt, unilateral action by management would only trigger a costly union confrontation.

- Urge the board to find a way to force Roger Smith, the GM ex-chairman who is largely responsible for the company's troubles, off the board. It's a disgrace that with Stempel forced out, Smith still retains his seat.

- Replace Smith with a representative of the United Auto Workers. This would be a wonderfully symbolic move and a good start toward creating an atmosphere of trust between the new management of GM and the union. And when UAW chief Douglas Fraser sat on Chrysler Corp.'s board in the early 1980s, he and Iacocca were able to forge a personal bond that helped the company deal with its problems. Smith, wisely, affirmed his conciliatory tone toward labor when he said, upon taking over as chief executive: "One of my most important objectives is to find, cultivate, and maintain common ground with our union leaders."

Whatever he does, GM's new CEO must act decisively before things get worse. "We have an opportunity here that we can't let slip by," Smith exhorted GMers the day he took his new job. The question is whether he is willing and able to seize this opportunity to remake GM radically.

UPS EUROPEAN OPERATION



500,000+
daily delivery
volume



9,000+
delivery
vehicles



21,500+
employees



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THE REBELS ARE BANGING ON WESTINGHOUSE'S BOARDROOM DOOR

Poor performance and an entrenched management have investors riled

Next year, Westinghouse. Juiced by the corporate upheaval they helped spur at General Motors Corp., activist investors are zeroing in on the ailing Pittsburgh company as their next quarry. Several U.S. pension funds, including the huge California Public Employees' Retirement System, have targeted it. So has Robert A. Monks, who was instrumental in goading Sears, Roebuck & Co. to make boardroom changes and to spin off its financial-services units. The United Shareholders Assn., a group of individual investors, says it is filing four shareholder resolutions with Westinghouse Electric Corp., including one that asks its independent directors to evaluate the company's strategy and leadership.

As if that didn't spell trouble enough for Chief Executive Paul E. Lego, there is more. Using new power granted by recent changes in federal proxy rules, the Council of Institutional Investors, a group of major pension funds, is likely to solicit proxy votes for the shareholder resolutions and against directors. The outside counsel to Westinghouse's board is one Ira M. Millstein, the attorney who roused GM's outside directors and is known to be none too happy with Westinghouse's performance. Meanwhile, former and current Westinghouse executives are leaking internal data to board members who might agitate for change.

NETTLES. No company has ever faced so many angry investors brandishing so many weapons—let alone faced them down. And the barrage could intensify before Westinghouse's annual meeting in April. Some funds haven't announced their prey and might yet pick Westinghouse. Some have deliberately stayed away. "Westinghouse is not on our list because they're on everyone else's list," says Edward J. Durkin, special programs director of the United Brotherhood of Carpenters. Others say they're likely to vote against its directors.

Investors are united in their ire for one reason: performance. Westinghouse turned in a \$1.1 billion loss last year on \$12.8 billion in sales, and it's running in the red again this year. Its financial-services operation in particular keeps bleeding. In recent months, credit-rating agencies have twice downgraded the company, effectively shutting it out of

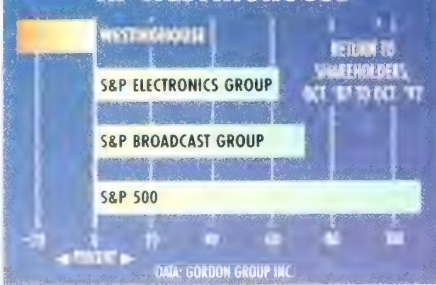
the equity and commercial-paper markets. And the performance of its shares, now near 13½, lags behind its peers'.

Westinghouse's internal practices also nettle investors. The company has installed a raft of measures to entrench management. The board is passive and doesn't even have a nominating commit-



LEGO: A LONE-WOLF MANAGEMENT STYLE

WHAT'S BEHIND THE IRE AT WESTINGHOUSE



tee. In October, it issued a statement giving Lego a vote of confidence.

Then there's that little matter of pay. In early 1991, management reaped big bonuses based on unaudited 1990 results. A month later, the company took a \$975 million charge against earnings that would have obliterated the grants. In 1991, managers got no bonuses but were handed plump stock-option grants instead. Lego pocketed some \$2.4 million in 1990 and 1991, plus options on 824,000 shares of stock. To protest, a handful of big funds voted against Westinghouse's directors last April.

LINE OF ATTACK. Since then, investors have pelted Lego with complaint letters. In response, he has traveled the country to see some of them, including Monks and Ralph V. Whitworth, president of United Shareholders. On Nov. 9, Lego is set to meet with CalPERS and the California Teachers Retirement System.

Lego always meets with his detractors alone. Former Westinghouse executives say that's due to his lone-wolf management style. He manages in "self-imposed isolation," exerting "heavy-handed" pressure on the units to increase earnings, one says, adding that company morale is "corrosive." A ranking insider says many senior executives "would like to see change" at the top.

But investors seem to be more galvanized by Lego's visits, not less. "Lego blames everyone else for the company's problems," says one major shareholder. And he displays no sense of urgency. "He says, 'I know, I know, I know, I'm working on it,'" says another. Lego, on vacation, says through a Westinghouse spokesman that "nothing could be further from the truth" and that the company is addressing shareholder concerns.

To provoke change, investors have so far settled on five resolutions as their first line of attack. Besides asking for a panel to study a restructuring, United Shareholders' proposals seek termination of the company's poison pill and a plan to tie compensation closely to performance. Both United Shareholders and the New York City Teachers' Retirement System ask for creation of a nominating committee of outside directors. Other funds may offer proposals to split the job of chairman and CEO. CalPERS may propose strong candidates for the board. Monks and others want Westinghouse to consider divestitures.

The bottom line: "The company needs to take very dramatic action very soon," says one investor. That now seems to be the only way Lego can avoid meddling by some very grumpy investors.

By Judith H. Dobrzynski in New York, with Michael Schroeder in Washington and Stephen Baker in Pittsburgh

OK. Let's get down to business. 24 hours. That's all we get. And still for some, it's just not enough. Now of course, we at GTE don't presume to tell you how to spend your time. Just how to save it. The way we see it, the phone is the shortest distance between a problem and a solution. Unlike a memo or business letter, it allows you to deal with problems immediately. And get results immediately. Compared to a personal sales call, it not only can save you a bundle of time, but a bundle of that other precious commodity. It lets you sell faster. Distribute faster. Collect money faster. Go to lunch faster. See your front door faster. Need we go on? **Make the call.** Because after all, it's about time. Isn't it?

If time is money,

this is a bank.

GTE

THE POWER IS ON

EDITED BY DEIDRE A. DEPKE

RISING TOLL

Only now are hard data to measure Hurricane Andrew's toll on South Florida coming together. The picture isn't pretty:

HOME DAMAGE

Florida homeowners will collect \$10.2 billion—far more than the \$7.3 billion insurance companies had planned to pay

JOBLESSNESS

Dade County unemployment jumped 0.5% to 11.5% in September—its highest rate in 12 years

TAX SHORTFALLS

September sales tax collections in South Florida fell 11.3% below estimates. Dade County's property tax collections will be \$32 million to \$50 million short of projections

LOTTERY SALES

The state figures lottery sales for fiscal 1992-93 will be \$18.8 million less than had been expected—which translates to \$7.1 million in lost revenues for schools

DATA: BW

McCAW GETS THROUGH TO AT&T

► Craig McCaw has long had a vision of building a national cellular network that could reach every home, business, car, plane, and shirt-pocket telephone. Now, he may have the money to do it.

AT&T and McCaw Cellular Communications announced on Nov. 4 that they were discussing a deal to give AT&T one-third of McCaw. AT&T would buy 47 million newly issued McCaw shares at \$42 each and would pay \$49 for 35.8 million shares owned by British Telecom. The \$2 billion netted by McCaw would help

pay off its \$5.3 billion in debt. It would also let McCaw sell its service under the formidable AT&T brand name. Eventually, the deal could give AT&T control of McCaw.

SHERRY LANSING, A STAR AT PARAMOUNT

► Maybe it's the year of the woman in business, too. On Nov. 4, Paramount Communications named Sherry Lansing chairman of its motion-picture group. She replaces Brandon Tartikoff, who resigned on Oct. 29. Tartikoff says he quit to care for his ailing daughter, but Hollywood insiders say he was also under pressure because of Paramount's short slate of Christmas films.

WILL CLINTON DIVERT FOREIGN AIRLINES?

► Does a Clinton Presidency bode ill for weak U.S. airlines? While experts say foreign investment may be the best hope for rescuing USAir, Continental, TWA, and America West, they note that President-elect Clinton has initially appeared cold to such sales. Clinton has expressed strong reservations about a \$750 million stake by British Airways in USAir. Some industry executives say that if the British don't win a deal under Bush, BA may walk away. Indeed, others believe Clinton's campaign comments

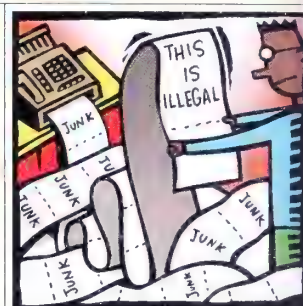
helped persuade Lufthansa to drop out of the bidding for Continental Airlines. But Air Canada, one of two final bidders for Continental would be unlikely to face such obstacles if its bid is accepted. American Airlines is now talking about an investment in Canadian Airways, following the collapse of merger talks with Air Canada.

BREAKING THE FAX JAM

You know the feeling: You rush over to the facsimile machine to pick up an urgent message. Instead, leisurely scrolling out is an ad for cheap fax paper or the take-out menu of a nearby Chinese restaurant. All the while, your crucial document is suspended somewhere in an unending loop of busy and redial.

Beginning in January, Californians will have a way to fight back. State Assemblyman Richard Katz figured that unsolicited faxes were enough of a problem to warrant legislation discouraging them. So he penned a bill requiring faxed advertising to include a toll-free number, so that recipients could call to halt future faxes. Violators would be subject to a \$500 fine.

Katz's intent seems good, but his methods may need some work. We received his announcement of the new legislation when we rushed over to pick up an urgent fax, and there, leisurely scrolling out of the machine...



ton's campaign comments helped persuade Lufthansa to drop out of the bidding for Continental Airlines. But Air Canada, one of two final bidders for Continental would be unlikely to face such obstacles if its bid is accepted. American Airlines is now talking about an investment in Canadian Airways, following the collapse of merger talks with Air Canada.

PICKING UP THE TAB FOR BIAS AT SHONEY'S

► Shoney's says it will pay \$105 million to settle a 3½-year-old lawsuit charging that it discriminated against black

workers and job applicants. Plaintiffs in the class action claimed that the policy of the Nashville chain was to limit the number of black workers in public areas of restaurants and to harass white workers who objected to that policy. If approved by a federal judge, payments will be made to those who have been discriminated against in hiring, firing, or promotion practices since 1985.

SAVINGS BONDS LOOK JUICY—IN LEAN TIMES

► With short-term interest rates at 30-year lows, yield-hungry savers are returning to an old favorite: the U.S. Savings Bond. The Treasury Dept. sold \$13.6 billion worth of the humble Series EE Bond during fiscal 1992, the largest sales since Savings Bonds helped finance World War II. The bonds have a lot going for them: a minimum purchase of \$25 and a flexible term that lets buyers cash out after six months or hold on for 30 years—but their main appeal is the high rate. Held for five years, today's EE Bonds will reward a saver with 6% interest—which is quite a nice return in today's market.





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TIFFANY & CO.

CAN KOREA UNITE AND CONQUER?

Seoul's strategy: Merge North and South—carefully—and mine the riches of Russia and the Far East

The chairman of South Korea's Daewoo group, Kim Woo-Choong, is known for grabbing catnaps on airplanes or in the backseat of a car. The white-haired 55-year-old needs the rest. He works at a frenetic pace, with 18-hour-long days and marathon travels that keep him away from Seoul some 200 days of the year. He used to spend most of that time in the U.S., Europe, or the Middle East. But these days, Kim is more likely to pop up in Pyongyang, Beijing, Moscow, or Ulan Bator.

The reason is that Kim has emerged as point man in his country's attempt to create a "Greater Korea." He and a growing corps of Korean executives and politicians are shaping a new vision of Korea's future. Rather than concentrate on the U.S. and Europe as partners, they want to create an economic zone that combines the best elements of South and North Korea, which have been mortal enemies for nearly 50 years. That vision includes neighboring regions of China and Russia, where 3 million ethnic Koreans live (map). None of this would have been thinkable just a few years ago, as cold war hostility lingered.

One goal of this Greater Korea strategy is to achieve reunification with the North—but not too quickly. Having witnessed the enormous costs and social dislocations of German reunification, the South Koreans want to create economic prosperity first. Cultivating communities of solidly capitalistic Koreans in China and Russia, they argue, will spread to



POINT MAN: DAEWOO'S KIM WOO-CHOONG IS A LEADER OF THE EFFORT TO BUILD A "GREATER KOREA"

North Korea and ease the trauma of reunification. Already, signs on China's Shandong Peninsula, directly across the Yellow Sea from the Korean Peninsula, are written in Korean as the number of small and medium-size Korean companies operating there surges.

NORDPOLITIK. But there are also urgent economic reasons for Korea's northern push, its so-called *Nordpolitik* strategy. Rich in resources, such as petroleum, timber, and coal, Northeast Asia has enormous potential but scant ability to develop itself. South Korea is in the opposite predicament: lots of money but few resources. "We'll bring in capital and technology," says Kim. "What we need is political will" to fully open the doors. Daewoo is the most aggressive of the big Korean *chaebol*, with plans to invest as much as \$1.1 billion in China, the former Soviet Union, and North Korea through 1995. Many other Korean

companies also are plunking down their largest investments to date.

In effect, the South Koreans are using these new relationships to shift their entire economic strategy. With the U.S. and Europe griping about Korean exports, a new flood of Korean products is beginning to hit the Asian mainland. At the same time, cheaper labor in bordering lands could help the Koreans lower the costs of their exports, which are becoming expensive as wages rise and the currency strengthens at home. Wages in northern Chinese provinces are a mere 10% to 15% of South Korean levels.

The Koreans have been cautious about investing in China, where there are few legal protections. But now that they have established diplomatic relations with Beijing, investments could pick up briskly. One estimate puts Korean investment in China at \$2.5 billion by 1995, with overall trade exploding to \$20

illion, doubling from this year.

Geopolitics is clearly working to South Korea's advantage. In late September, President Roh Tae-woo paid a historic visit to Beijing, ending an era of hostility that lasted four decades. Business was high on the agenda. Besides Daewoo's Kim, the entourage included 36 top corporate leaders, including Hyundai Chairman Chung Se-Yung and Sunyong Chairman Cheyong-Hyun.

Russian President Boris Yeltsin, his relations with Tokyo stalled, also is hoping to dramatically expand ties with the Koreans. He plans to visit Seoul this month to discuss such projects as a \$20 billion proposal to develop Siberian natural-gas fields and one to build new rail links and roads. The Seoul trip comes on the heels of the Russian leader's abrupt cancellation of a visit to Japan.

At issue: the longtime dispute over ownership of the Kurile Islands. As a result of the impasse, Seoul has stolen diplomatic momentum from Tokyo.

WINNING RUSSIA. Such budding ties with Moscow and Beijing put pressure on North Korea to open up its markets and ease its hard-line attitudes, such as refusing foreign inspections of its nuclear weapons capabilities. Neither is happening quickly. Although it has flirted with Daewoo's plans to set up plants for manufacturing consumer goods such as shirts, toys, and kitchenware, the North has so far avoided opening its doors very wide. The 38th Parallel separating North from South is still protected by miles of razor-sharp concertina wire and armed checkpoints.

Direct trade with the North has also been hampered by politics in the South. In 1991, Daewoo's imports from North Korea represented a tiny fraction of South Korea's \$166 million total. But, in the first eight months of this year, Daewoo's share rose to 10%, triggering complaints to the Seoul government from rival Samsung Group. That prompted the government to put the brakes on Daewoo's activities. Plans for factories are on hold

SOUTH KOREA'S BIG PUSH

MONGOLIA, CENTRAL ASIAN REPUBLICS

- ▶ Koreans exploring mining deal with Mongolian state coal company
- ▶ Daewoo signs \$600 million joint venture with Uzbekistan to produce cars, trucks, and buses
- ▶ Daewoo plans \$100 million investment to make electronic products in Tashkent

RUSSIA

- ▶ Consortium led by Daewoo discussing \$20 billion plan to tap natural gas near Yakutsk
- ▶ 100 companies planning investments in port of Nakhodka
- ▶ Hyundai has timber joint venture near Vladivostok

NORTH KOREA

- ▶ Trade links slowly expanding
- ▶ Daewoo studying feasibility of building eight factories, mostly clothes, consumer goods
- ▶ Kim Il-Sung agrees to allow pipeline to run through country

CHINA

- ▶ Halla Group plans \$220 million cement plant in Hebei, also auto production
- ▶ Pohang Iron & Steel invests \$95 million in Shanghai
- ▶ Samsung plans \$200 million ethylene plant in Jilin



for now, but Daewoo did send in a team in October for preliminary studies.

The South Koreans remain convinced, however, that over time their strategy will force the Hermit Kingdom to open up. So they are plunging ahead—building their stakes with Pyongyang's erstwhile supporters. Already, South Korean companies are highly visible both in Moscow and in Russia's Far East. The first thing a traveler arriving at Moscow's Sheremetyevo International Airport sees are giant billboards advertising Hyundai, Sunkyong, Goldstar, and several other South Korean companies. And South Koreans are plunking down more, with \$7 million invested in the

first half of 1992, up from \$3.6 million in all of 1991.

The centerpiece of Daewoo's Russian strategy is the \$20 billion plan to develop Siberian natural gas. Chairman Kim has persuaded Yeltsin and President Roh Tae-woo to agree to a plan to lay a gas pipeline from Yakutsk in eastern Russia through North Korea to the South, and eventually by undersea pipeline to Japan. Kim cleared a major hurdle in January when North Korea's supreme leader, Kim Il-Sung, agreed to go along.

According to the plan, a consortium of Russian and South Korean companies will be formed soon to harness the estimated 1 trillion cubic meters of natural-gas reserves, the largest gas field outside of Alaska. Consortium members are likely to include Daewoo, Korean oil giant Yukong, Samsung, Lucky-Goldstar International, and the government-owned Korea Petroleum Development. Daewoo executives say a three-year feasibility study costing \$100 million is under way.

The Russians, long frustrated in their bid to draw the Japanese into developing their natural resources, see the pipeline as an example of Korean commitment to their market. "The



PYONGYANG PLANT: CHEAP LABOR IS ABUNDANT IN THE NORTH

Japanese looked at it for a long time," observes Victor N. Koptevsky, director general of the Asian department of Russia's Ministry for Foreign Economic Relations in Moscow. "But the Korean companies are more active and decisive."

Kim also plans to build a new road and railway line simultaneously, as gas pipes are laid. New transportation routes with Russia are essential because the key Trans-Siberian rail link is badly clogged with traffic. Moreover, rails from Russia to China and North Korea are of different gauges. An efficient new line could give South Korea better access not only to Asian markets but to Western European markets, too.

Daewoo's high profile in Russia is starting to pay off in other ways. The company has obtained some core technologies, such as carbon brake discs for aircraft from Russia's Niigrafit and Aviaexport. Kamov Helicopter Scientific & Technology Co. of Russia will provide design and manufacturing technology for a 100-pound pilotless helicopter used for spraying pesticides in countries from Thailand and Vietnam to the U.S. And, in June, Daewoo took over a state-run consumer-electronics factory in St. Petersburg. Operated by Positorn Co., the venture will manufacture VCRs, refrigerators, TVs, and audio devices under Daewoo's brand name. Half of the output will be sold in Eastern and Western Europe.

CAPITAL-INTENSIVE. Korean companies have other interests in the Russian Far East. Led by Kohap, up to 100 Korean companies are planning investments in a free economic zone at the port of Nakhodka, Russian officials say. Hyundai has a timber joint venture in Primorski Krai, near Vladivostok. Altogether, 25 Korean companies have representative offices in the former Soviet Union, according to the Korean Trade Center in Moscow. At least 10 more companies may establish a presence after Yeltsin's visit to Seoul.

Kim's efforts extend beyond Russia. He has signed a \$600 million joint venture, for example, with Uzbekistan's government to produce 160,000 cars, trucks, and buses annually. The vehicles will be manufactured starting in mid-1994 and marketed in the former republics of Central Asia. Many of those deals were clinched by ethnic Koreans living in the region.

The Koreans have the vast former Soviet Union virtually to themselves, with scant competition from the Japanese or Taiwanese. China is a different story, however, where rivals are more established. So the Koreans feel pressure to better define their niche. Instead of small, labor-intensive operations that have dominated investment in China, the Korean *chaebol* are now announcing massive, capital-intensive projects in the electronics, machinery, steel, petrochemical, and automotive industries. The Halla group, a cement and construction and engineering conglomerate, plans to build a \$220 million cement plant and facilities for automobile and heavy-equipment

ket to foreign companies is a good chance—but also a potential threat to Korea," comments Chun Jin-Hwan, president of Lucky-Goldstar.

Yet South Korean executives realize that they need to be there. The risk will just have to be managed. "Before the Chinese are able to fully digest all our technology and use it against us in the international market, we will be far ahead," insists Kim Hun, executive managing director of Samsung Electronics.

SINGLE-MINDEDNESS. Although some critics warn that the Koreans are overextending themselves, Kim, in particular, is pushing Greater Korea with the same single-mindedness that he has used to drive Daewoo ever since he founded it in 1967. This chain-smoking workaholic, who prefers a bowl of Korean instant noodles to caviar and champagne, now spends more of his time on this international push than on Daewoo's shipbuilding, automobile, or electronics ventures. The difficulties actually appeal to him. "I smell money when there is risk," he says.

Kim may be in the vanguard, but across South Korea's executive ranks there is excitement about Greater Korea. They see golden market conditions that prevailed in South Korea in the early and mid-1970s: low wages and disciplined workers. Only now, the South Korean giants are far more experienced and technologically more advanced than they were 20 years ago.

This northern strategy could even help the South Koreans battle a wave of cheap, well-made products the Japanese are turning out from production bases in Southeast Asia.

So the strategy that President Roh initiated by inviting China and the Soviet Union to the 1988 Seoul Olympics has now blossomed beyond pure diplomacy. The moves may eventually prompt reunification with North Korea by about the year 2000. And in so doing, the strategy could also lend huge new momentum to South Korea's flagging economic drive. No matter what the risk the Koreans figure, it's a plunge they have to take.

By Laemi Nakarmi in Seoul, with Robert Brady in Moscow and Lynn Curry in Beijing



SOUTH KOREAN PRESIDENT ROH TAE-WOO (RIGHT): WELCOMED IN BEIJING

production in Hebei Province. Pohang Iron & Steel is planning to invest \$95 million in Shanghai in steelmaking technology that will help supply specialized products. And Samsung has signed a contract with Jilin Chemical Industry Corp. of China to invest \$200 million in an ethylene production plant in Jilin Province.

There are, of course, risks to South Korea's thrust into the mainland. Aside from the obvious problems of political stability and currency conversion, strategists must worry about creating future competition from the Chinese themselves. By transferring technology to the Chinese in heavy-industrial and consumer-products sectors, the Koreans could one day suffer the same "boomerang" effect they inflicted on the Japanese. "The opening of the Chinese mar-

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CRUNCH TIME AT JAPAN'S BANKS

The bailout plan won't ease the squeeze of bad real estate loans

How do you deal with a colossal *banking mess*? Swoop down, American-style on failing lenders, dump massive amounts of distressed real estate onto the market, and sock the government for a massive bailout bill? Or hem, haw, and hope that a recovering economy will eventually cure the system's ills? In Japan, the latter seems to be the case.

According to some estimates, up to \$300 billion in bad loans now burden Japan's once-buoyant banks. Yet tightfisted Ministry of Finance regulators are refusing to mount the kind of wide-ranging relief-and-restructuring campaign that the Ministry of International Trade & Industry has performed in the past on such depressed industries as steel, mining, and paper. Instead, Finance Ministry bureaucrats are putting the squeeze on banks to clean up their own mess. If the ministry refuses to change its tune, the *sopor* will be long and slow.

MORE TO COME. On Oct. 30, Mitsubishi Bank Ltd., the current leader of Japan's banking federation, unveiled a modest plan to let lenders get as much as \$25 billion in bad loans and real estate off their books during each of the next five years by selling them to a receiver financed by the industry. "We expected a lot, but it turned out to be no real change," says Shinano Morita of Standard & Poor's Corp. "We were not impressed."

The low-key approach to the banking problem poses risks to the flagging economy, especially if the credit crunch gets in the way of Prime Minister Kiichi Miyazawa's \$87 billion economic-stimulus program. If that occurs, the Finance Ministry and the Bank of Japan might have to move aggressively with direct aid and sharply lower interest rates. Already, bankruptcies are at record highs, with software houses and manufacturers joining real estate developers. The

Tokyo stock market, once a source of cheap capital for banks and manufacturers, is in the doldrums. And bank lending is now running only 2.2% ahead of last year's pace, down from 6% in 1991 and a torrid 13% rate in the late 1980s.

Regulators are also understating the industry's problems. The Finance Ministry says bad debts at Japan's 21 biggest lenders jumped 54% in the fiscal half ended Sept. 30, to \$100 billion. But that excludes loans less than six months in

branches. Fuji Bank Ltd. is shutting a Tokyo office, its first such closure in 21 years.

The Mitsubishi-designed relief plan was crafted after a frantic week that kept executives working until 4 a.m. It calls for major banks to set up a company that will buy bad loans and the real estate backing them from any lender at a discount from book value. The new company then will try to sell the property, passing proceeds along to the original lenders. Finance bureaucrats hope the scheme will generate enough transactions to help jolt the moribund real estate market back to life. The plan will also give banks some government help by allowing them to bypass Japan's slow foreclosure process and realize immediate losses on bad assets. Doing so will generate quick tax write-offs for hard-pressed lenders. But there are limits.

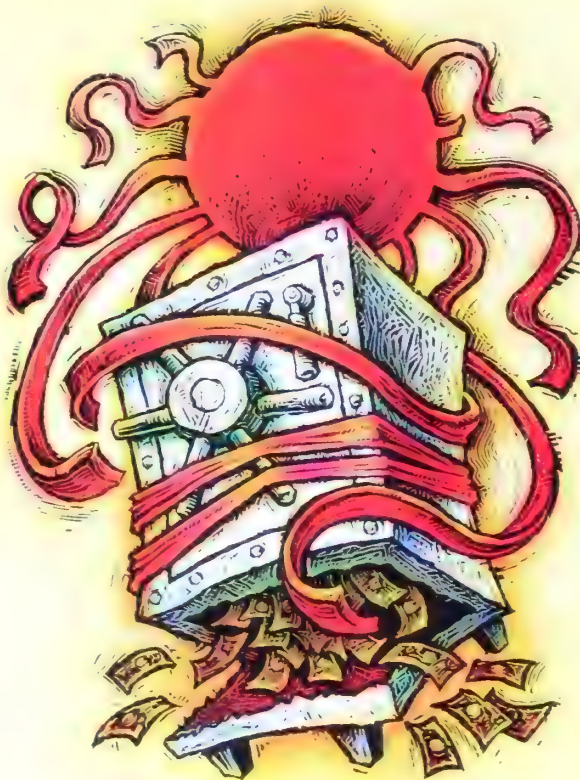
For one thing, banks themselves will have to lend to the new company to finance purchases of their own problem assets.

CASH SHORT. Neither does the plan help banks address the mounting problem of bad debts weighing down many affiliated nonbank lenders. Take the nation's eight housing finance companies, or *jusen*. They are nursing tens of billions worth of bad commercial and consumer real estate credits and no longer have the cash to repay the dozens of banks that financed their lending spree in the 1980s. Half of the loans at the biggest such lender, Nihon Jutaku Kinyu, with \$23 billion in assets, are now classified as nonperforming. Yet it has only \$145 million in reserves to cover these problem assets. Two of its owners, Sakura and Sanwa Bank Ltd., are trying to restructure the lender's bank debts. But analysts believe few banks have set aside enough capital to cure the entire finance industry's ills.

"The scale of the disaster that has overtaken the *jusen*," says the IBCA's Marshall, "is staggering."

Although several *jusen* are run by former Finance officials, that message still doesn't seem to have reached Japan's regulators. If the economy doesn't pick up soon, the guardians of Japan's financial foundation may have to start listening.

By Larry H. White, Jr., Tokyo and William Glasgow in New York



arrears and credits to troubled borrowers paying reduced rates. So the tally is sure to grow even larger by the time the fiscal year ends Mar. 31. Analyst David Marshall of the credit-rating agency IBCA Ltd. estimates the 21—including Dai-ichi Kangyo, Sumitomo Bank, and Mitsubishi—now have \$162 billion in bad loans. Already, some major banks are reporting sharply lower profits and cutting costs. Sakura Bank Ltd., for one, plans to close about 50 of its 601



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EUROPE: THE FAR RIGHT'S VICIOUS VOICE GETS LOUDER

Sitting in his mid-19th century mansion in the foothills west of Paris, Jean-Marie Le Pen confesses to feeling a certain sense of satisfaction. For years, the leader of France's extreme right-wing National Front party railed against the influx of immigrants into France and Western Europe. But his ugly message never really caught fire. Now with the European economy under increasing pressure from a stubborn slump and rising unemployment, far-right groups in France, Germany, and Italy are forcing mainstream political parties to adopt a more hard-line stance on immigration and European unity. "I was a good prophet," says Le Pen.

Indeed, after years of howling in the wilderness, the far right is at last being heard throughout the Continent. In once-tolerant Italy, violent attacks against Arab and African immigrant workers have become commonplace. There and in Germany, Jewish cemeteries have been desecrated. France has seen fewer incidents, yet anti-immigrant fervor is strong.

MORE STRIDENT. In France, Le Pen's themes are likely to play a key role in the March legislative elections, where the conservatives are expected to seize the post of prime minister. More than likely, the National Front will not win more than a handful of seats, and the chances of its emerging as a power broker are slim. But Le Pen's success at making immigration a potentially winning issue is likely to prompt the mainstream conservatives, Gaullist leader Jacques Chirac and former President Valéry Giscard d'Estaing, to adopt more strident, nationalist tones.

In Germany, mainstream leaders are also watching the far right with unease. There the Republicaners, led by former SS officer Franz Schönhuber, are gaining strength. Schönhuber is exploiting the resentment of the thousands of newly unem-

ployed against immigrants who get generous government financial support. While full-fledged neo-Nazis number only about 4,000, it's increasingly likely that the Republicaners could cross the 5% threshold to win parliamentary seats in Germany's next elections, expected by 1994.

To prevent further gains on the extreme right and limit the flood of hundreds of thousands of asylum-seekers, Kohl's ruling coalition is close to reaching agreement on revising Germany's constitution to limit the numbers of economic refugees entering the country. Housing and welfare money for immigrants may be tightened.

FRINGE ELEMENTS. The far-right challenge could prove even more serious in Italy, where there's a power vacuum waiting to be filled. Italy's traditional ruling parties have been completely discredited, presenting big opportunities for neofascists such as the Movimento Sociale Italiano, which could win sizable votes in the next election. Another group, the Lega movement, has emerged as the largest political party in the affluent northern region by pushing the idea of creating a new

autonomous region in Northern Italy. There are even fringe elements that want to send home the poor southerners who have migrated north.

Unless Europe's economy perks up, the right is likely to be a force to be reckoned with for years. Extremists could well throw monkey wrenches into efforts to proceed with greater political and monetary integration. So the leaders of Europe are praying for an economic revival. At this point, it seems that only a business recovery will be able to check the right-wing surge.

By William J. Holstein in Paris, with Gail E. Schares in Bonn and John Rossant in Rome



LE PEN: IN TOUGH TIMES, MORE PEOPLE ARE LISTENING

GLOBAL WRAPUP

RUSSIA

There's a new word in the lexicon of Russian economics—*protektionitski*. Fearful of new foreign competition, officials of some Russian banks and enterprises are lobbying for new favorable treatment on state contracts. One is Viktor Korovin, general director of Uralmash, a giant industrial equipment maker in Yekaterinburg. He's worried that Western companies will take away his contracts for major oil equipment. In return for government help, he's pledging support for Russian acting Prime Minister Yegor Gaidar, now under attack by right-wingers who want to stall his reform program.

Likewise, the Russian Central Bank is being asked to limit the role of foreign banks in Russia. Their claim: Foreign banks finance foreign companies invading the domestic market rather than making investments in local enterprises. Even so, many Russian depositors would prefer to put their hard currency into foreign banks, considered more trustworthy.

YUGOSLAVIA

Yugoslav Prime Minister Milan Panic appears to be losing his grip on power, which spells more trouble in the Balkans for the incoming Clinton Administration. On Nov. 3, the former American pharmaceutical magnate

barely escaped a no-confidence legislative motion. The vote was orchestrated by Serbia's ultra-nationalist President Slobodan Milošević, who recruited Panic in July to help break the U.S. trade embargo against Yugoslavia. Since then, Panic has incurred Milošević's wrath by backing peace initiatives to extract Serbian forces from Bosnia and Herzegovina.

Should Panic be forced out, the new Clinton Administration probably will face an even more assertive Yugoslavia. The Clinton transition team is already considering lifting an arms embargo that has given better-armed Serbs an advantage against Bosnian fighters.



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DOLAN IS UP AGAINST SUBSCRIBER RAGE AT HIS PRICES AND A NEW LAW REGULATING RATES

NOW, CHUCK DOLAN WANTS TO BE MR. NICE GUY

An aggressive cable pioneer tries to get the public on his side

It was jarring enough that Congress spent the summer reregulating the cable industry. But when Charles F. Dolan tuned in to his own 24-hour news channel recently, he was hopping mad. The chairman of Cablevision Systems Corp. in Woodbury, N.Y., watched as News 12 Long Island gave subscribers plenty of airtime to rail against his company and cable TV in general. "We're trashed more by News 12 than by any other medium," he complains.

That's saying something. Not only is News 12 owned by Cablevision, but the station's news director is Dolan's 41-year-old son, Patrick. The elder Dolan considers it a matter of principle to give Patrick total editorial independence. Often, though, that means getting slammed. For years, Chuck Dolan has been one of cable's bona fide visionaries. For just as long, he has been a lightning rod on Long Island for consumer complaints about hardball tactics and skyrocketing cable rates. Patrick certainly isn't alone when it comes to criticizing his father. And Chuck knows it.

The Dolan family's conflict neatly sums up the dilemma facing the entire industry. While entrepreneurs such as the 66-year-old Dolan have taken a no-

holds-barred approach in seizing opportunities and developing technologies, they have also irked subscribers by paying for their dreams with spiraling rates. On Oct. 5, consumer anger became federal law: Congress voted to regulate the industry's ability to raise rates. Now, says Dolan, the time has come to mend

MILESTONES OF A TELEVISIONARY

SPORTS

Dolan pioneered sports on cable, offering New York Knicks and Rangers games to subscribers in 1967

HOME BOX OFFICE

Invented the granddaddy of pay cable channels, selling it to Time Inc. in 1973. It later evolved into HBO

REGIONAL NEWS

News 12, launched in 1986, was the first 24-hour regional news channel

TRIPLECAST

Dreamed up the money-losing pay-per-view coverage of the Barcelona Olympic Games in 1992

DATA BW

fences. "The public feels we're illegitimate and exploitative," he admits. "The public has to be on your side."

If history is any guide, Dolan's new attitude may augur a general softening of the industry's posture. After all, the soft-spoken, one-time radio producer has spent much of his career setting the cable agenda (table). In the 1960s, he was the first to offer sports programming on cable. He was also the first to air movies on pay cable, starting the channel that evolved into Home Box Office. And with News 12, he kicked off the recent trend toward regional cable-news channels. "He is one of the great pioneers," says John Severino, former president of the ABC Inc. television network and the Prime Ticket cable network.

BRASH PREDICTION. Yet Dolan stumbled in his most recent venture because he couldn't square his technological ambitions with market realities. Last summer, he and NBC Inc. teamed up to offer round-the-clock coverage of the Barcelona Olympic Games on pay-per-view TV. Dolan brashly predicted that 2.5 million viewers would pay \$125 for the TripleCast. But only one-tenth of that figure signed up, and the TripleCast lost \$120 million. Cablevision took a \$50 million hit, while media analysts figure NBC absorbed \$70 million.

Dolan blames the torpid economy. But his own partners now wonder whether the concept was fundamentally flawed. "We ran into a lot of different perceptions about television that caused us to have a much lower response rate," says Robert C. Wright, president of NBC. Wright remains enthusiastic about pay-per-view programs, though he doubts Dolan's concept would ever work without some radical rethinking.

The bigger question is: How can a \$603 million company afford to lose \$55 million on a single project? Certainly, Cablevision—already a highly leveraged public company—can only take such risks because of the piles of cash it extracts from subscribers. Some consumers hope reregulation will put the brakes on such behavior. "We're going to go after him," says Henry Schaefer, an angry customer in Huntington, N.Y.

Dolan doesn't think the bill is Jeffersonian legislation. It is muddled, he says, and cable operators will contest parts of it in court. But he admits it will push him to change how he prices his services. And he insists he is serious about healing his rift with the public.

He better be. Dolan and his competitors need the support of subscribers as they move into an increasingly expensive future. Cablevision, for example, is spending \$112 million to rewire 6,000

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miles of its cable network with fiber optics, a technology that will allow it to boost its number of channels from the current 38 to 54, and eventually 150.

Further down the road, fiber optics will allow Dolan to offer interactive programming. That's a potentially lucrative market, since Dolan could offer a panoply of new services such as home shopping or game shows. To sell such new services, though, Dolan must convince customers he's not just trying to push through another rate hike: "These days, new channels are not seen as something of greater value, but as evidence of abuse," he says.

NEW BUZZWORD. Dolan has always taken the risky path. He moved to New York City in 1952 following a stint as radio producer in his native Cleveland. By 1961, when cable TV was still a Buck Rogers concept, he began selling it in Manhattan. After starting the predecessor to HBO, Dolan sold out to Time Inc. in 1973. As part of that deal, he picked up some cable systems in Long Island, which he used to form Cablevision.

The regulatory squeeze has not chilled Dolan's determination to innovate. If he can win over new customers, he figures he can hawk futuristic concepts such as

a mobile telecommunications system that would compete with cellular phones. His current buzzword is PCN, for personal communications networks. Dolan wants to supply customers with portable telephones that send and receive signals via the airwaves and cable. The system would allow customers to call anyone, anywhere, by hooking into regular

Dolan is still sweet on his first love, cable programming: He is planning three new channels

phone lines as needed. While some analysts doubt PCN will ever be a big business, Dolan is bullish. He is testing PCN in several systems right now.

Despite an increasingly crowded cable spectrum, Dolan isn't giving up on his first love, either: cable programming. Staffers at Cablevision's Rainbow Programming Holdings Inc. are drawing up plans for three new cable channels. While Dolan is still vague on details, he

says one channel will offer children's shows. It's a terrible time to start a new channel, but Dolan says he wants to be ready with offerings when channel capacity expands.

One measure of Dolan's interest in programming is that he recently named another son, Jim, CEO of Rainbow. With Jim Dolan's appointment, Cablevision has become more of a family fiefdom than ever. In addition to Patrick and Jim, son Thomas runs a Cablevision system in Suffolk County, N.Y. Says Dolan: "The company culture and our family life have intermixed for so long that this was probably unavoidable."

Jim agrees. With HBO and other new cable ventures the subject of dinnertime conversation, a career in cable seemed the obvious course. And while the News 12 experience shows that Chuck and his sons are all business at the office, they avoid friction at home. Chuck even crews for son Jim on the family's two racing yachts. "He's O.K. at taking orders," Jim insists. Deference doesn't come naturally for a man used to being the skipper. But Chuck Dolan is learning that you have to listen, not least when it comes to your customers.

By Mark Landler in New York

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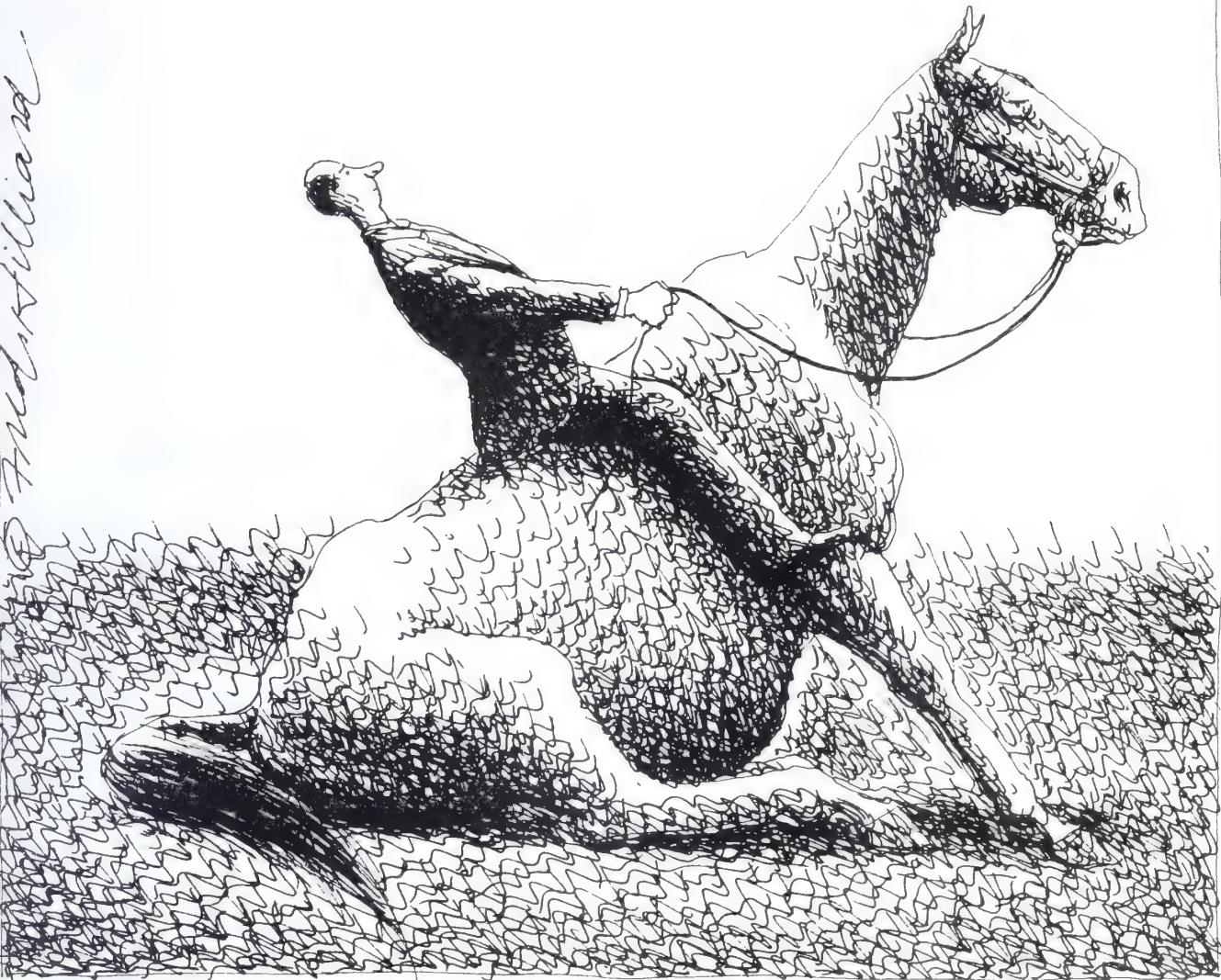
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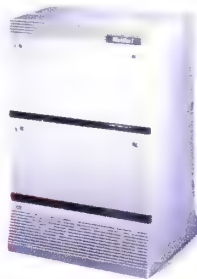


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TURN'S UP TECHNOLOGY

EDITED BY RON STODGHILL II

KATHLEEN SYNNOTT: SHAPING THE MAILROOMS OF TOMORROW



How do you coax growth from a sluggish market you already dominate? That's the challenge faced by Kathleen E. Synnott, worldwide marketing manager for the large-company division of Pitney Bowes Inc. Her answer: Convince your old customers that they need something new.

For years, Pitney Bowes has virtually owned the mail-machine business. But with the market saturated, it's trying to reinvent what

it sells. Enter Mail Center 2000, a new computerized system that allows mail of any size or shape to be weighed, stamped, and prepared for the Post Office in minutes. At \$20,000, it isn't cheap. But automation, Pitney insists, will pull the antiquated mailroom into an efficient new future.

To Synnott, 38, has fallen the task of convincing both old customers and recalcitrant Pitney Bowes executives that the system makes sense. The latter have been a tough sell. During the design process, for instance, Synnott helped protect the original blueprint from execs who wanted to break up the Mail Center 2000 and sell it as upgrading components to Pitney's existing mail-metering machines. She also guided it through a technical maze, insisting on 22 simulations to make sure potential customers liked what they saw. "There were naysayers who didn't think we were ready" for such a system, says Synnott, the no-nonsense daughter of a Pittsburgh printer. "But they got religion."

By Tim Smart in Stamford, Conn.

ANDY STONE: DAIWA'S DARING MAN ON THE STREET

Despite the booming U.S. securities markets, most Japanese brokerage firms on Wall Street have posted losses or paltry profits over the past two years. But not Daiwa Securities America Inc., the U.S. arm of one of Japan's big-four brokerages. While the other three have floundered in the U.S. markets, Daiwa earned \$70 million for the year ended last March. Its secret weapon: Andy Stone, a 35-year-old trader of mortgage-backed securities hired two years ago to shore up Daiwa's sagging mortgage-backed trading desk.

Stone's record lately has been remarkable. Since April, 1991, sources say he has racked up \$250 million in gross profits trading mortgage securities—most of them distressed assets scooped up from the failed savings and loans managed by the



Resolution Trust Corp. Last year, for example, Stone swept in on a slew of mobile-home-park mortgages others had shunned as worthless. When he repackaged them and found buyers, other bidders began copying the transaction. Now, Stone is buying nursing-home mortgages and even used-car loans. "We buy the stuff no one else will buy at any price," he says.

Stone takes risks more conservative firms won't allow. A University of Chicago business school graduate, he got his start in 1981 when he went to work for Salomon Brothers Inc. and the legendary Lewis S. Ranieri, who made millions as one of the pioneers of the mortgage-backed securities market. In 1987, Stone left to run his own department at Prudential Securities Inc., before Daiwa lured him away. The Japanese gave him an offer he couldn't refuse: Stone and his staff of 35 professionals take home as much as half of whatever they make for the firm. These days, they're betting that even healthy banks will provide opportunities as they dump commercial real estate mortgages wholesale. The only question is whether Andy Stone can keep picking winners.

By Leah Nathans Spiro in New York

MIMI VANDERMOLLEN: WOMEN DRIVERS HAVE A FRIEND AT FORD

When it comes to designing cars, Mimi Vandermolen knows how to get the men at Ford Motor Co. to take her seriously. To sensitize her mostly male design staff to the needs of women drivers, she had them work in fake fingernails. The result: a hot-selling 1993 Ford Probe with less bulky radio knobs and door handles. The Probe also has a lightweight trunk door and a lowered front end, to give shorter women a better view of the road. Says Vandermolen: "I've threatened to make our men designers wear skirts while getting in and out of a car."

Vandermolen, 46, is trying to take some of the macho out of Motown. As the highest-ranking woman designer in the auto industry, she's using her position to draw attention to the many frustrations female drivers face—from seat buttons that entangle skirts and rip panty hose to bulky gas and brake pedals that defy women in high heels. Traditionally, cars have been designed with men in mind. But with women making up 49% of new-car purchases, many auto makers are reevaluating their market.

Born in Toronto, the daughter of an amateur motorcycle racer, Vandermolen's maverick instincts run deep. As a product-design student at Ontario College of Art, she eschewed drawing toasters and vacuums for the racier chalks of cars. She joined Ford in 1969, and after a restless stint designing home appliances for a Ford subsidiary, she landed a spot on the already successful Mustang design team. Her big break came in 1980, when she headed up the interior-design team for the blockbuster Ford Taurus. The Probe, considered a big success, marked Vandermolen's first shot at overseeing the design of an entire car. Now, she's tackling the redesign of Ford's Festiva. Mimi Vandermolen isn't the only designing woman in the car industry. But as she climbs the ladder, she has got the clout to put gender-sensitive design in the front seat.

By Greg Bowens in Dearborn, Mich.



FIGHTING A FIRE AT 'CAMP DNA'

Leroy Hood's biotech lab is off and running. A startup may be next

When 150 attorneys and staffers from a Seattle law firm arrived at a local club to hear a luncheon speech in October, they were farly out of their depth. Most hadn't gone beyond high school biology, and here they were, about to be addressed by a leading expert on molecular biotechnology. Yet when Leroy Hood finished, the crowd was bubbling over with enthusiasm for the potential of human genetics research. "He communicates his excitement," says William H. Gates III, a partner at Preston, Thorgrimson, Tidler, Gates & Ellis.

at the California Institute of Technology, Hood was itching for a chance to create his own department and direct interdisciplinary research. Gates's donation clinched the deal, and last October, UW announced the lab. It opened this September, with an annual budget of \$5.5 million in federal research grants and a staff of 43, some 24 from Caltech alone.

"Camp DNA," as Hood's staff calls it, will train PhDs in molecular biology to be proficient in computer science, engineering, math, or applied physics. "We want to train biologists who will develop new tools and ways to apply them," says

ing, the process for deciphering genes. But the escalating complexity of genetic research requires higher-skilled programmers. "People like me should no longer be doing this," says Tim Hunkapiller, a biologist who is Hood's chief computing expert. Hood wants to explore ways his scientists and Microsoft's researchers can collaborate on the software needed to run the equipment his team plans to invent—and analyze the mountains of data created by gene sequencing.

GENE READER. Such big visions are routine for Hood. While at Caltech in the 1980s, he invented a machine that automatically sequences DNA—or reads the codes of human genes responsible for everything from hair color to cancer and heart disease. That \$100,000 instrument now is standard equipment in genetic research. In all, Hood's lab developed 15 instruments using computers, robots, sensors, and chemical analyzers to automate tasks in biotechnology. Over 22 years, his Caltech group spawned four companies, including Applied Biosystems Inc., which sells the DNA-se-

HOOD'S AMBITIOUS AGENDA

Hood developed the pioneering automated equipment that sequences, or identifies, fragments of DNA, thus helping scientists uncover the functions of the 50,000 to 100,000 genes

in the human body. He has just lured 13 top scientists to a new department at the University of Washington to develop the next generation of machines

BASIC SCIENCE

- Hood's team will try to solve mysteries in human biology, such as the genetic basis of human development and the immune system
- Hood will provide seed money to young researchers and graduate students for projects too embryonic, or far-fetched, to qualify for government funding

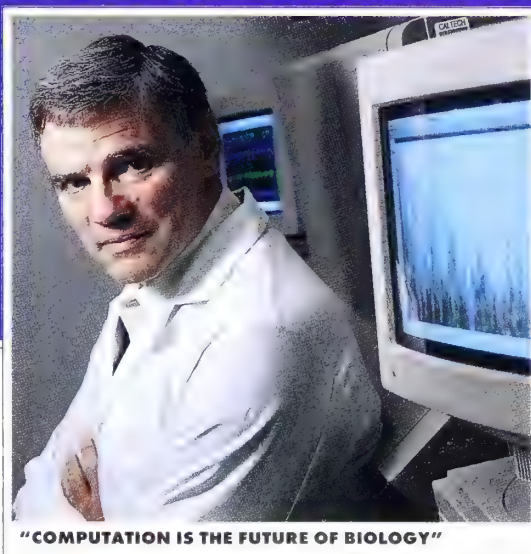
TECHNOLOGY

- Hood's team will develop a machine to "read" DNA that is 20 to 50 times faster than today's devices

SPIN-OFFS

- Hood expects to start a company that will sequence DNA for the federal government and for biotech, drug, and other companies

GATA 001



"COMPUTATION IS THE FUTURE OF BIOLOGY"

Gates should know. Last year his son, William H. Gates III, co-founder and CEO of software star Microsoft Corp., gave the University of Washington \$12 million to recruit Hood and endow a new department of molecular biotechnology. Its goal: create a center, more sophisticated technology to decipher the volumes of information hidden in human genes and to apply that knowledge to solve problems in biology and medicine. "Computation," says Hood, "is the future of biology."

NO-FISTED EXPERTS. Hood, 54, has a hidden chance to prove it. Gates, an avid biotech investor, knew Hood's work even before a UW official approached him in late 1990 about providing an environment to recruit the scientist. Then

Hood, who believes that only dual experts can design the ever-faster machines needed to decipher DNA. Beyond that, some \$2 million of Gates's grant will fund young scientists' projects that are too early-stage or risky to win government backing.

Hood sees more than money in a tie-in with Gates. Until recently, biologists versed in computers have developed most of the software for gene sequenc-

quencing machines his lab invented.

Sequencing machines, the cornerstone of modern genetic research, essentially unravel the order of the four constituent-base molecules, known as G, C, A, and T, that make up genes. The machines use fluorescent colors to mark the bases: red, green, blue, and yellow. A computer then "reads" the colors, identifying the order of the bases within the genes. This helps scientists understand the function of the 4,000 or so genes on any one of the 46 human chromosomes. It also makes it possible to create tests for genetically based diseases, some 3,000 of which already have been identified. And it's crucial for developing therapies to correct genetic defects and for

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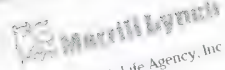
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Science & Technology

designing genetically engineered drugs. In short, "DNA sequencing is the future of medicine," says J. Craig Venter, a former researcher at the National Institutes of Health and founder of the Institute for Genomic Research in Maryland, which has a \$70 million sequencing contract with the federal government.

Problem is, current technology is so slow that it would take \$6 billion and 10 years to decipher the 3 billion bases contained in just one set of human chromosomes. Given the cost and time, the ability to "sequence larger segments of DNA in less time" is critical, says George B. Rathmann, chairman of Icos Corp., a Seattle-based biotech company.

That is just what Hood intends to do. In two years, he plans to unveil a machine that will be 20 to 50 times as fast as today's devices. In the longer term, Hood's group is exploring "nanofabrication" to speed up gene sequencing. This would involve putting 100 to 500 gene fragments on a tiny chip, using biosensor techniques to read the DNA structure, then feeding this information into a miniature computer for processing. Such a system could decode in a third of a day the amount of genetic material it now takes a year to unravel, says Hood.

GENOME PITCHMAN. Hood's grand plans don't surprise those who know him. With a PhD from Caltech in biochemistry and a medical degree from Johns Hopkins University, he has won renown for his research in understanding human auto-immune diseases. That work earned him a prestigious Albert Lasker Medical Research Award in 1987. And in 1990, he located the site of one of the genes that predispose people to multiple sclerosis.

Hood is hardly an ivory-tower academic, however. He is one of the most effective pitchmen for the controversial Human Genome Project, a \$3 billion effort in the U.S. to identify all human genes. He constantly promotes the potential of genetic manipulation to improve the human condition by giving at least one speech a week, testifying before Congress, and appearing on national TV. "Hood is seductive and engaging," says Arthur L. Caplan, director of the University of Minnesota's Center for Biomedical Ethics, who thinks Hood glosses over negative impacts of genetic screening and other ethical issues. "He

is someone I have to be wary of."

Although he works tirelessly for his cause, the Montana-born Hood still finds time for his original love, the outdoors. The grandson of a cowboy, he spent his honeymoon on a 120-mile wilderness climb in the Sierras. And he periodically braves the perils of mountaineering to climb peaks in Washington, British Columbia, and Alaska.

CATCHING FLAK. Hood exercises his penchant for risk-taking at work, as well. He sees huge potential for a company that can sequence genes quickly and inexpensively for the federal government and drugmakers. Frederick Avery Bourke Jr., a Connecticut businessman and philanthropist, has pledged to deliver most of the \$50 million investment for a Seattle-based company that he and Hood plan to found within six months. Theoretically, a sequencing assembly line might even let doctors routinely analyze genes of patients. The startup also would decode genes with commercial potential for the diagnosis and treatment of disease.

Hood will face plenty of competition in these endeavors. Three other laboratories, including Los Alamos, the European Molecular Biology Laboratory in Heidelberg, Germany, and one at the University of Wisconsin are trying to develop faster sequencers. And if the sequencing company gets off the ground, it, too, could find rivals in other startups and existing biotech companies. In fact, the would-be company has already run into flak. Bourke touched off controversy earlier this year when he tried—and failed—to poach two top researchers from the Human Genome Project to head the new company. Now, he's looking for a chief executive plus several top scientists for the company, along with commitments from instrumentation, automation, and software companies to develop technology.

Neither the competition from other labs nor the risks of a startup daunt Hood's backers, who think his track record, expertise, and financial support almost assure UW's lab—or any company he founds—of a head start. "He'll be one of the people who'll lead the way to dramatic advances over the next 10 years," says Microsoft's Gates. Seattle's biotech community seems certain of that. "Lee Hood," says Icos' Rathmann, "is an incredible catalyst for good things."

By Dori Jones Yang in Seattle

Bill Gates gave
the University
of Washington
\$12 million to
lure Hood and
24 Caltech
staffers

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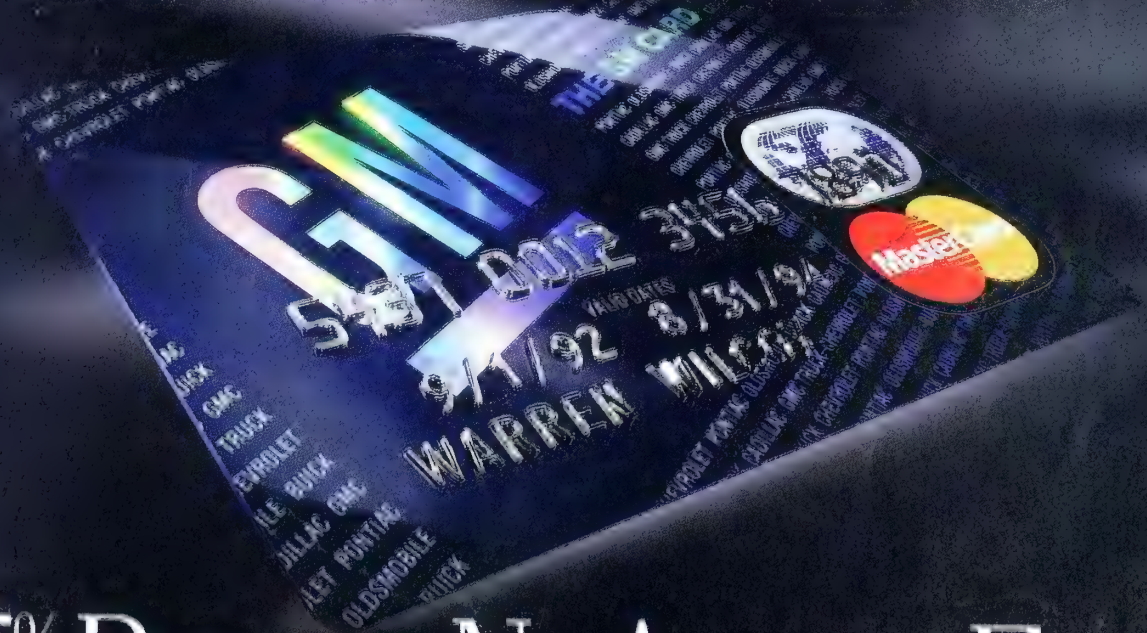
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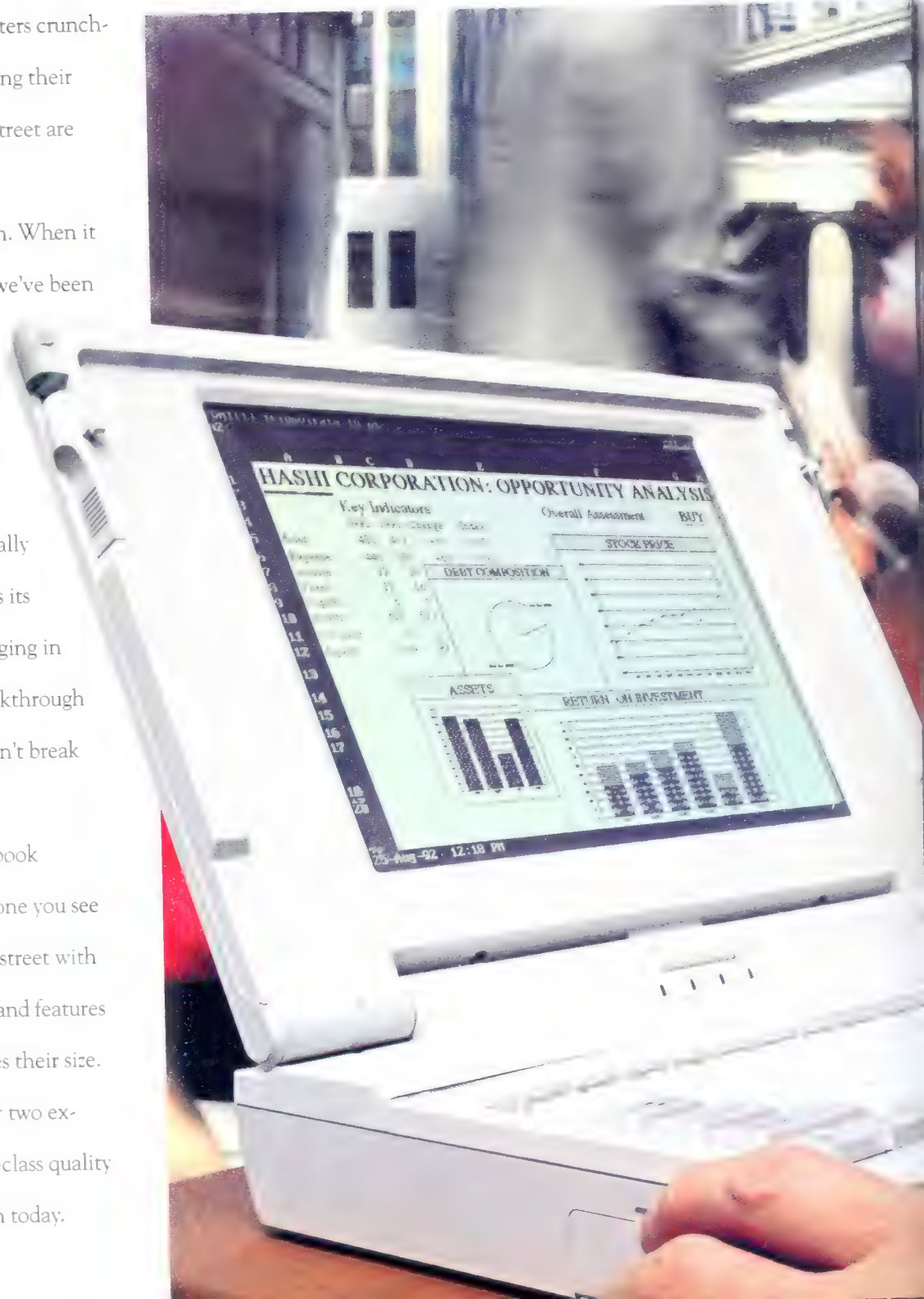
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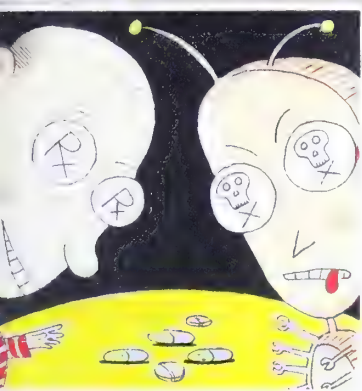
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EDITED BY NAOMI FREUNDLICH

A GOUT DRUG THAT DOUBLES AS PEST CONTROL FOR ROACHES



Sufferers of gout—a painful joint disease—may soon share their medicine with cockroaches. Scientists at the Agricultural Research Service's Entomology Laboratory in Gainesville, Fla., have used a gout drug, called allopurinol, to wipe out an entire roach population in just four to six weeks.

In gout patients, crystallized slivers of uric acid form around the joints. Allopurinol prevents this painful buildup by reducing the amount of uric acid formed in the body. The link to cockroaches is that the female pests need uric acid to develop embryos within their eggs. In the ARS tests, roaches that ate rat chow laced with the gout drug could not reproduce.

Several companies have expressed interest in the pest control, says ARS entomologist Daniel R. Suiter. He envisions using bait, made from distiller's grain or peanut butter, that's laced with the drug. One benefit: Human toxicology studies on the 30-year old drug have already been completed.

GIVING SNAPSHOTS EXTRA DIMENSION—WITHOUT 3-D GLASSES

You can finally toss out those funky 3-D glasses. Using digital technology, researchers at Eastman Kodak Co. in Rochester, N. Y., have found a way to combine multiple photographic images into a single 3-D picture. In the resulting images, objects appear to protrude or recede from a primary point of focus, thus providing a viewer with changing perspectives from different viewing angles.

To create a single 3-D picture, the new process combines up to 24 different exposures taken with a standard 35mm camera mounted on a track. Once the film is developed, these images are scanned into a computer. There, proprietary software is used to rearrange individual pixels to form a single image. The final product can be printed as either a transparency or a print. A thin, transparent optical material is laminated over the picture to "focus" the image. The result is a 3-D photo that gives the illusion of depth without special glasses.

Kodak is still evaluating the commercial potential for this so-called depth-imaging process, which will surely cost more than standard film processing. Commercial applications might include everything from point-of-sale displays to portraits.

IS ALUMINUM A RED HERRING IN THE ALZHEIMER'S STORY?

Aluminum's role in Alzheimer's disease has long been a mystery. Over the past decade, a number of studies found seemingly alarming levels of the metal in the brains of Alzheimer's victims. Although no one has been able to show that aluminum actually caused the deadly disease, the strong association was worrisome enough for some scientists to ad-

vise against using aluminum pots and pans. A few even feared that acid rain might contribute to the disease by leaching aluminum from soil into drinking water.

But now, the fears—and the mystery—may be laid to rest. In a study published in the Nov. 5 issue of *Nature*, Frank Watt and colleagues at the University of Oxford used a highly sophisticated imaging technique to look for aluminum in the brains of people who died of Alzheimer's. To their surprise, they found only faint traces of the metal—the same levels that appeared in normal people. The reason for the earlier opposite results? Watt suspects contamination of the stains used to identify brain tissue in previous studies.

HARNESSING THE POWER OF LIGHT TO MAKE SPEEDIER CHIPS

Transistors, microprocessors, and other microelectronic devices can work at amazing speeds. In fact, they're so fast that it's hard to send all the data over wires that connect one chip to another. That's why researchers are increasingly looking to send the signals as light pulses, either through fiber-optic wires or directly through space. Over the past few years, scientists have linked computers—even circuit boards within computers—through optical connections.

Now, scientists at AT&T Bell Laboratories have taken the marriage of electronics and optics a step further by producing a simple computer chip that both receives and sends its information via rays of light. The 1mm-square chip contains an array of 16 communication-switching elements, each sporting 17 laser diodes and 25 transistors, and it's "smart" enough to control a "very high-speed washing machine," jokes David A. B. Miller, head of Bell Labs' advanced photonics research. In the next few years, says Miller, a chip could be made with thousands of elements, making it possible to process large amounts of information—as in telephone switching or image recognition—far faster than can be done with existing devices.

WHY VIDEOMOBILES ARE ROAMING THE STREETS OF AMERICA

If you see a van bristling with video cameras and other electronic gear on your street, relax, it's not Big Brother. Geospan Corp., a Minneapolis geographical-information-systems company, plans to unleash a fleet of such vans to inventory the nation's infrastructure for utilities, real estate firms, and other customers.

Geospan's custom vans use global-positioning-system satellite receivers and terrestrial-navigation gear to create precise electronic street maps. The video images will be compressed and stored on compact disks. A computer data base will link the digital maps to the corresponding video images.

Geospan CEO Jerry Robinson foresees a myriad of markets. Government transportation agencies could keep an accurate visual record of street and highway conditions. Real estate agents could give prospective customers a quick video tour of a neighborhood. And banks, insurers, and real estate assessors could use the technology to help evaluate properties.



CAPITALISM THAT WOULD MAKE KARL MARX PROUD

Offbeat Software AG has made money for 22 years

Germany's Software AG seems to defy the rules of capitalism. "Maximizing profits is definitely not our goal," says Peter Pagé, co-founder and chief executive. Top managers scorn the stock market and downplay the importance of marketing. And since its start in 1969, the software developer has been guided by a key princi-

ple that might have been lifted from the preachings of Karl Marx. As Pagé puts it, a corporation should not "produce richness for a few from work of the many." Giant salaries, inflated bonuses, and lucrative stock options are all ruled out for Software AG's top management.

For this company, at least, it's a winning philosophy. Software AG is among the 10 biggest independent software houses in the world, with \$470 million in revenue last year and an unblemished 22 straight years of profitability. As the world's largest software company based outside the U.S., Software AG has ridden wave after wave of upheaval in computers while most of its rivals founded in the 1960s haven't survived as indepen-

dent companies. The key seems to be the company's ability to leapfrog its competitors, including IBM, in the \$10 billion worldwide market for mainframe database programs and software development tools.

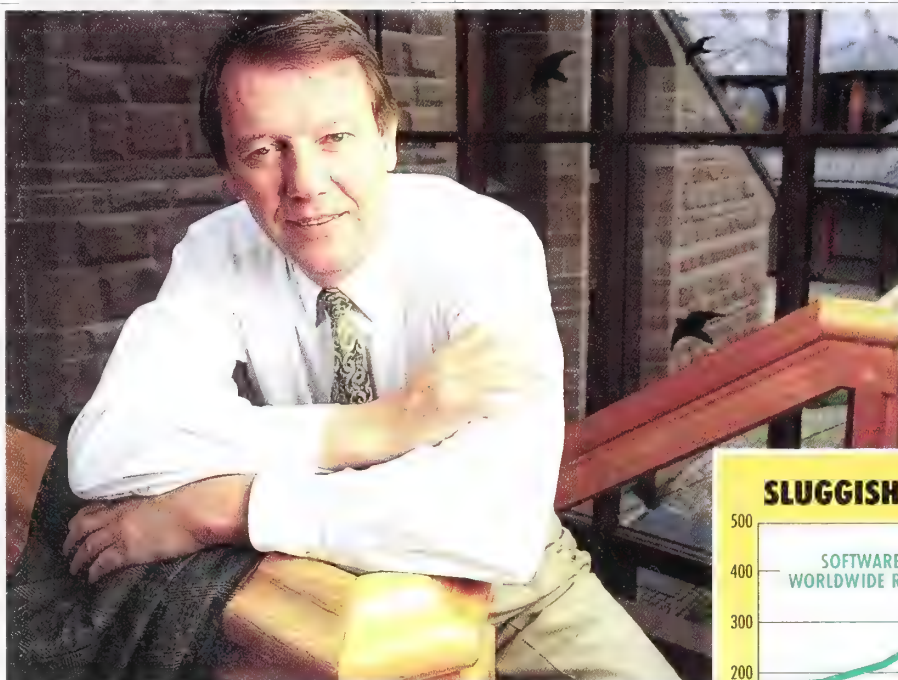
Software AG's latest leap may be its most difficult. By the late 1980s, Pagé sensed that the boom in networked

In 1989, Pagé (pronounced Pah-SZAY) kicked off a five-year plan to shift the 4,300-employee company in that direction. The first of these client-server products hit the market a year ago, helping boost nonmainframe revenue to 17% of sales within a few months. By 1997, Pagé figures that Software AG's revenue stream will be split equally among products and services for mainframes, PCs, and computers that run the Unix operating system. Software AG's products work together across many incompatible types of computers, making it possible, for example, to link systems that do invoicing on IBM mainframes in the U.S., market analysis on Digital Equipment Corp. gear in Europe, and warehouse inventory on Hewlett-Packard Co. workstations in Asia.

CLEAR VISION. If the new products take off, Software AG will have proven once again that its unique form of management has staying power. Founded by Pagé and five other engineers, it was conceived as a private "trust" that nevertheless reports its finances to the public. The structure is rooted in the philosophy of 19th century industrialist Carl Zeiss, who founded the eponymous camera and optical-equipment maker. Under a Zeiss-like plan, longtime employees own the company's stock, but the shares function mainly as a mechanism to prevent a hostile takeover. The employees receive no dividends or even a valuation on their holdings, which must be turned over to the company when they leave.

The trust's statutes also prevent top managers from running away with the profits. The trust requires that 70% of profits go to research and investment. Last year, for example, \$118 million, or 25% of sales, were plowed into R&D, compared with just 13% at rival Oracle Systems Corp. The trust also stipulates that 10% of profits be set aside for pensions, 10% for employee bonuses, and 10% for social causes. Bonuses are the equivalent of two months' wages per year plus \$300 to \$1,400.

Transferring that mindset to the U.S. hasn't always been smooth. John N. Maguire, the former chairman of Software AG of North America, Software AG's U.S. subsidiary in Reston, Va., left the company last year after what he describes as "terrible cultural differences"



PAGÉ: ESCHEWING "RICHNESS FOR A FEW FROM WORK OF THE MANY"

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personal computers would transform the industry in the 1990s. Until then, all of the company's products were designed for mainframe computers. While mainframe software sales are still healthy for Software AG, the long-term trend is for big corporations to start moving jobs from those expensive, refrigerator-size machines to nimble networks of lower-cost midsize and desktop computers. So the trick for Software AG is to develop programs that work over "client-server" setups comprising mainframes that serve up information and software to hundreds of smaller client machines.



th the German managers. He has filed it for alleged breach of his retirement contract but maintains that the company's "great products and loyal customers." He says he encouraged Pagé and the other top German managers in the mid-1980s to be more aggressive in the U.S. market, which now accounts for about 23% of sales, down from 37% in 1986 (chart).

The differences between Maguire and Pagé came to a head in 1988. The parent bought out all the stock of the U.S. subsidiary, which Maguire had taken public in 1981 to fuel a North American expansion. Pagé contends that the managers of the U.S. subsidiary were short-term thinkers. "It was too quarterly-results-driven," he says. In 1991, Pagé assumed Maguire's post as chairman of the U.S. unit.

Beefing up the U.S. operation is crucial. The American market is the world's largest, and U.S.-based multinationals tend to buy their software at home. So, Software AG's most important rivals are based in the U.S.

LONGEVITY. While Pagé says the company intends to stick to its principles, Software AG is also catching on to the ways of the huge U.S. market. For years, the company relied mainly on customers to spread the news about its databases data base. But recently, Pagé at the U.S. subsidiary in charge of worldwide marketing. Software AG's U.S. president, Michael J. King, has tried marketing outlays from what they were three years ago, to \$50 million, and has increased the direct-sales force by 50%, to 70 people. "We're moving from being a technology-driven company to a market-driven company," says King, a former software executive in Britain who joined the company in 1989. He says it's beginning to appreciate the benefits of the company's unusual bylaws. "The core mission is longevity," he explains. Pagé says the company's vision is neither capitalistic nor socialistic but idealistic. "What drives the world forward is not money or ideology," says Pagé. "It's an individual's inner motivation." Pagé tries to give workers maximum responsibility and freedom. At Software AG's buid Darmstadt headquarters 15 miles from Frankfurt, employees set their own hours, often putting in 10-hour days, with occasional breaks for tennis on the clay courts. There's no dress code, and programmers have been spotted in cut-off shorts and Daffy Duck socks. "We want to liberate people's natural drive and energy," says Pagé. That's the trend of the 21st century," he says. "It's like some of its rivals, Software AG is good bet to last at least until then."

By Gail E. Schares in Darmstadt, Germany, with Evan L. Schwartz in New York

SOFTWARE



CEO WARNOCK: WITH POSTSCRIPT SLOWING, HE'S COUNTING ON CAROUSEL TO LIFT REVENUES

DOES ADOBE HAVE A PAPER CUTTER?

Its Carousel programs make PC screens look like a magazine

Computers have yet to deliver on their promise of creating an all-electronic, paperless office. If anything, they have had the opposite effect. Desktop publishing, for example, has turned personal computers into relentless personal printing presses, thanks largely to Adobe Systems Inc., whose software helps laser printers spew out waves of eye-catching paper. But now Adobe wants to turn back the tide. On Nov. 16, the company plans to unveil a new technology, code-named Carousel, that could make it practical to transmit electronically all sorts of things normally distributed on paper—from corporate sales reports to full-color magazines.

Yes, computers already routinely send the contents of business documents or newspapers. But because of incompatibilities between different types of computers and software programs, most of the photos, graphics, headlines, and varied typefaces have to be stripped out. That leaves an unappealing, unadorned electronic page of text. Carousel provides a format that, Adobe says, will make it possible someday to send a document as complex as, say, an issue of BUSINESS WEEK over a network or via diskette. Of course, readers could still make a printout. "We won't ever get to the paperless office," says Adobe Chief Executive Officer John E. Warnock, "But we want paperless transmission and storage."

If Carousel works as promised, "it will be far bigger than anything Adobe has done before," says industry consultant Jonathan W. Seybold. As president of Seybold Publications Inc., he's interested in a more efficient way to distribute publications without losing print quality.

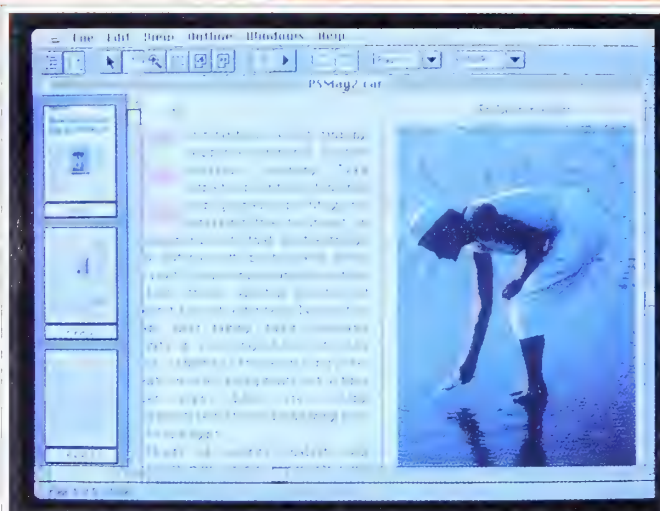
'PRECARIOUS.' Warnock hopes the new software will give Adobe a much-needed boost. For the third quarter ended Aug. 28, profits dropped 48% from last year, to \$6.7 million, the first decline in Adobe's 10-year history. Some analysts believe Adobe's 1993 revenues will be flat with 1992's \$265 million. But because of Carousel and other new products, Bruce M. Lupatkin at Hambrecht & Quist Inc. says 1993 sales could hit \$315 million, with profits up 36%, to \$70 million. "There's a new wave of optimism about the company," adds Robertson, Stephens & Co. analyst John T. Rossi. Adobe's stock is now at 35, after falling from 68 to 25 in the past 10 months.

The volatility reflects the fuzzy picture for PostScript, its flagship program. Adobe gets a royalty of some 3% of the price of each laser printer that includes PostScript. In 1991, about 450,000 laser printers were shipped with PostScript, accounting for 19% of the laser market, says International Data Corp. That share should grow to more than 26% by 1996. But printer prices are plunging along with those of PCs, cutting royalties. And PostScript clones are

making inroads. Printer makers Digital Equipment, QMS, and Lexmark, the IBM spin-off, all use clones. That puts Adobe "in a somewhat precarious situation," says IDC analyst Marc G. Boer, who says in two years clones could have 20% of the PostScript market, up from 3% now.

So, Adobe's future growth may depend on convincing corporations that Carousel could save them money. Adobe itself, says Warnock, spends \$10,000 a month on paper internally—\$1,000 just to print and distribute an employee phone list. A hard-disk drive that can store a billion characters and can be used for years, costs about \$2,000, just half the cost of paper needed to store as much.

Displaying documents electronically is just the start. Carousel is actually a series of products to be released over the next few years. In the first half of 1993, Adobe is set to sell several Carousel programs for the Macintosh and PCs controlled by Microsoft Corp.'s Windows. One program, known as a driver, will



CAROUSEL: IF IT'S A SUCCESS, CAN MICROSOFT BE FAR BEHIND?

translate a file from any word processor or desktop-publishing program into a so-called PDF, or Portable Document File. A special viewer program installed on each computer lets the user read a PDF, no matter what kind of computer it came from. A driver-and-viewer package should sell for less than \$200.

Follow-on products will make it possible to edit documents and search

through them using key words. To do that, Adobe plans to adopt, in part, an international technology standard known as SGML, or Standard Generalized Markup Language (page 85). Another future program will enable a desktop scanner to translate a printed page into a Carousel file. Still another will enable publishers to transmit animation and video clips.

LURKING GIANT. All of this requires heavy investment that may not pay off for years. Adobe's poor third-quarter performance, in fact, was in part due to a \$6.3 million write-off it took in acquiring small companies with key Carousel technologies. Also, customers may not opt for Carousel until they see all the pieces are in place. "The value of a document delivered electronically is minimal, unless it can do things you can't do on paper," says James Stoneham, an Apple Computer Inc. product manager.

In the meantime, Adobe is certain to encounter some competition. Companies that specialize in electronic publishing,

This is an honor.



For the second consecutive year, J.D. Power and Associates has ranked Apple highest among Personal Computer Companies in Overall Customer Satisfaction. One more reason to choose Apple Macintosh. The easy way. Every Macintosh personal computer is designed to make it easy for you to do everything you have to do. Plug one in, and you're ready to work. It's easy to set up.

such as Frame Technology Corp. and Interleaf Inc., can deliver much of this electronic distribution technology today, although only for documents originating on their own software or filtered through translators built specially for each word-processing program on the market. Some observers also expect software powerhouse Microsoft to enter the business. "It's almost preordained that Microsoft will have its own scheme," predicts J. Paul Grayson, chairman of software company Micrografix Inc.

But Adobe can't be easily written off. Virtually every word-processing and desktop-publishing program is already compatible with PostScript, which is the underlying format for Carousel. Companies such as Lotus Development Corp. plan to have their programs automatically produce Carousel-compatible files, and some analysts expect Adobe will sign up network software leader Novell Inc. to build Carousel technology directly into its products. That should help, but Adobe knows it could take years for Carousel's electronic documents to catch on. After all, it took a decade for desktop publishing to build a mountain of paper in the first place.

By Richard Brandt in Mountain View, Calif.

NOW, TEXT REALLY KNOWS HOW TO TRAVEL

It's 1992, do you know where your information is? Sure, you say, it's in the computer. Yes, but where exactly? All those memos, letters, and reports—they're just sloshing around in there, a formless pool of text and graphics. There's no index, no organization. And what if you switch computers someday? Will your new system be able to use all that old information?

It's issues such as these that are driving companies such as IBM, Boeing, and Westinghouse Electric to adopt the Standard Generalized Markup Language (SGML), a set of electronic codes that's doing for documents what standards are doing for computer programs: making it easier to move them from one computer to another. SGML can help all sorts of editing, indexing, and printing programs work on the same documents, without the usual compatibility problems.

PROFIT SPEEDER. What's the payoff? Software maker Frame Technology Corp. is using SGML to help drugmak-

ers speed up the process of getting a new drug approved by gathering notes from many researchers' computers, indexing them, and packaging the final result on an optical disk. That helps Food & Drug Administration workers analyze the data by computer, rather than poring over paper. As a result, Frame says, drugs get to market quicker, and profits come sooner. IBM now codes its technical documents in SGML, so a single master copy can yield both printed and electronic versions.

Several years ago, the Pentagon enlisted SGML in its fight against paper. Now, civilians are using it, too. Sales for SGML products should hit \$550 million by 1995, says market researcher InterConsult Inc. Networking-software producer Novell Inc. and workstation maker Silicon Graphics Inc. now distribute SGML-coded technical manuals with their wares. As their customers start using them, SGML will spread—and infoglut may begin to ebb.

By John W. Verity in New York

This is a trend.



Easy to learn. Easy to expand. In fact, Macintosh is still the only computer engineered from the first chip to work that way. Which may also explain why Apple has sold more personal computers this year than any other company in the world. So if you're looking for a computer that's easy to use, there's really only one way to go. Macintosh. The power to be your best.



LOOK, MA—NO CABLE: IT'S VIDEO-BY-PHONE

Bell Atlantic's new venture could shake up the pay-TV industry

After next summer, television may never be the same at Arthur A. Bushkin's McLean (Va.) home. No more running out to rent the latest video. No more waiting for cable's newest offerings. Instead, if all goes as planned by Bell Atlantic Corp., the Bushkins will be watching videos whenever they want to, brought to them over their phone line. Their take on being test-market targets? "My nanny has volunteered to watch all the movies," quips Bushkin, president of information services for the Philadelphia-based phone company.

Bell Atlantic and other phone companies ache to steal a piece of the \$25 billion-a-year cable-TV business and the \$8 billion video-rental business. The road was paved in July, when the Federal Communications Commission allowed them to provide "video dial tone"—that is, to deliver movies and TV to homes much as they now deliver phone calls.

FIBER-FREE. The \$5.4 million Bell Atlantic experiment that includes the Bushkin home is intended to topple a major technical hurdle: how to send video over "twisted pair," the old-fashioned copper wiring still used for most local phone service, instead of waiting for high-tech fiber-optic lines. The basic technique, called Asymmetric Digital Subscriber Line, was developed by Bellcore, the research arm of the seven Baby Bells. ADSL blasts video signals over wires at rates far above what voice traffic requires. Such high frequencies lose energy quickly, but a box in the home will pick up and amplify the signals (table). Phone service won't be affected.

If all goes well, Bell Atlantic plans to roll out a commercial service within its six-state territory in 1994 that will make existing pay-per-view cable service look as quaint as a '48 Philco. Bell Atlantic hopes to offer between 30 and 100 videos with no wait. Eventually, it would add hundreds of titles—even thousands—as well as video material for education, home banking, and shopping.

Of course, Bell Atlantic still faces some big technical hurdles. One vital gadget doesn't even exist yet. Called the "video server," it's a kind of jukebox that will store movies in digital form and transmit them within seconds of a view-

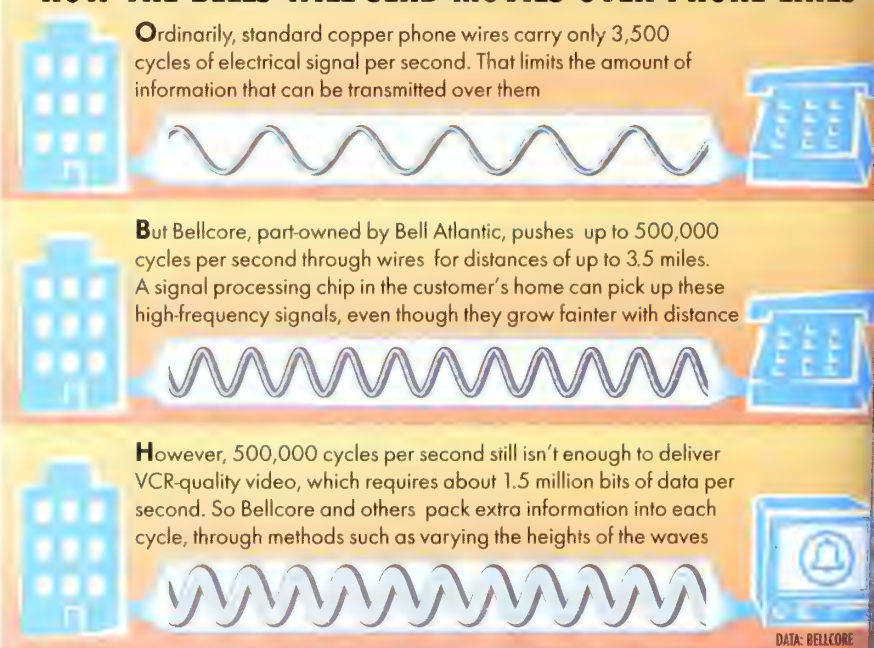
er's request. In a demonstration for the FCC on Oct. 28, Bell Atlantic faked it using a personal computer, two TV sets, and just 20 minutes of digitized videos—including snippets of *Spartacus*.

Aside from that, the quality of an ADSL picture is closer to VCR level than to cable or broadcast TV. And critics say about 25% of American homes wouldn't be able to get it because they live too far—more than 3½ miles—from their phone company's nearest switch. ADSL

operators are experimenting with video on demand and similar services, as are other phone companies. GTE Corp. has been conducting a long-running trial of video on demand via fiber in Cerritos, Calif. U.S. West Inc. is testing the market in the Denver area with cable giant Tele-Communications Inc. And in early October, Nynex Corp. announced plans to offer video on demand next year in some Manhattan apartment buildings in cooperation with Liberty Cable Television, which transmits over microwaves.

LONG WAIT. In the long term, the biggest splash of all may be made by Bellcore itself, which has invented a video-on-demand setup for all seven of its Bell owners that will let viewers fast-forward and rewind—features that Bell Atlantic says it's only "looking at" offering now. Bellcore's system, jointly developed with Northern Telecom Ltd.'s Bell-Northern Research, is also probably more suited to large-scale use than Bell Atlantic's.

HOW THE BELLS WILL SEND MOVIES OVER PHONE LINES



could be subject to interference. And for now, it can't be used for live broadcasts. "Customers will find that it's not as friendly as cable," says Richard R. Green, chief executive officer of Cable Television Laboratories Inc., an industry research consortium.

Bell Atlantic officials shrug off such cavils. They say the critics haven't seen their closely guarded technology. Moreover, this test is designed to refine the technology—not merely showcase it. Says Bell Atlantic's Bushkin: "We're comfortable running an employee trial to help us continue the development."

Bell Atlantic is hardly alone. Big cable

But it will take longer to roll out. Bell Atlantic's trial is bound to attract attention because it involves two promising technologies: the video jukebox—instead of, say, a bank of manually operated VCRs—and video over twisted pair. It's still not clear who will win the cooling war between the phone and cable industries, or even whether the rivals will become partners, as TCI and U.S. West already have. A successful test by Bell Atlantic could help sort things out. Clearly, Art Bushkin's nanny won't be the only one tuning in.

By Joseph Weber in Philadelphia, and Peter Coy in New York

FIND A WORLD YOU THOUGHT WAS LOST.

People were sure they'd never feel that rare sense of satisfaction again.

Then, they saw that adventure *and* comfort, ruggedness *and* roominess could still be found. They traded in their old ideas—from trucks to cramped utility vehicles to costly sedans—for the versatility plus sophistication of Explorer.



Touch Drive lets you shift from 2WD to 4WD High, and back, with pushbutton ease.

Today, this is the most sought-after vehicle in its class. And finding that still special world is easier than you imagined.



Have you driven a Ford...lately?



A choice of available amenities like leather seating surfaces, an open-air roof, and sound system with CD player let you make this world your world.



Buckle up—together we can save lives.

IND YOURSELF IN AN EXPLORER.

DOWNSHIFT AT DAIMLER

A MERCEDES WORLD SLUMP RATTLES IT TO THE CORE

The new \$1.3 billion Mercedes-Benz plant at Rastatt is a New Age marvel. The spacious, green factory buildings rise above the lush meadows outside the historic spa of Baden-Baden. Landscapers have lovingly preserved an old walnut grove. Inside, there are no foremen and few traditional assembly lines. Instead, borrowing from Japanese production techniques, self-run groups of employees working in bays churn out gleaming mid-range 200 series cars.

But hopes that Rastatt will guarantee Mercedes a future in the global market could be dashed. Opened six months ago, its costs are likely to be too high to compete with such Mercedes killers as Toyota's Lexus, Nissan's Infiniti, or even archrival BMW, soon to make its 3-series autos in a low-cost Spartanburg (S. C.) factory.

Rastatt is a symbol of how plans are going awry at Daimler Benz, crown jewel of Germany Inc. Until recently, Europe's largest industrial combine, with \$62 billion in annual sales, was confidently turning out everything from jet engines and refrigerators to its marvelous driving machines. But lately, Daimler has been looking like anything but a well-oiled roadster. It is being battered by recession, high labor costs, and the superstrong German mark. The shriveling of defense budgets is rocking its Deutsche Aerospace (DASA) unit, which depends on the military for nearly half its revenues.

But most rattling of all is the downturn in Daimler's once hugely profitable car business. Daimler executives have watched in disbelief as competitors snatched away Mercedes sales in the

U. S. For the model year ended Sept. 30, Mercedes' U. S. sales were down 5%, while Lexus climbed 39%, BMW 15%, and Infiniti 7%. And they have been rudely surprised as BMW, for the first time ever, has overtaken Mercedes at home. What's more, Mercedes' top-of-the-line S-class cars—with prices as high as \$142,900—are turning in disappointing sales. According to industry sources, as many as 100,000 of its best-selling 190s, the Baby Benzes, have piled up in dealer

lots. Alan Coats, an analyst at Paribas Capital Markets Group, forecasts a 43% drop in the car company's pretax earnings this year, to \$1.17 billion, dragging down the entire Daimler group's results by 30%, to \$1.82 billion (chart, page 90).

BRUISING BATTLE. Daimler's downshift is rocking the social contract among Germany's management, government, and labor to its very foundations. In union halls and corporate suites, Germans are debating whether the nation may have been too generous with entitlement programs and unemployment benefits and

not lean enough for today's brutal global competition.

Daimler's sudden change of fortune is putting intense pressure on CEO Edzard Reuter, a soft-spoken intellectual who is an art collector and expert sailor. Reuter is a big thinker and internationalist in the mold of his patron, Deutsche Bank CEO Alfred Herrhausen, who was assassinated in 1989. In office for five years, Reuter, 64, has been using profits from the car business to bankroll sweeping moves into aerospace, electronics, and financial services, in hopes of transforming Daimler into a high-tech power-

**Lexus,
BMW, and
Infiniti
have been
snatching
U.S. sales
away from
Mercedes**



house. In Reuter's view, knowhow from airplane-making could benefit autos, and electronic components would be interchangeable, whether for high-speed trains or washing machines. This ambitious strategy led to a bruising battle in 1987 with his predecessor, Werner Breitschwerdt, who argued that Daimler would be better off sticking to cars. The board sided with Reuter and kicked Breitschwerdt upstairs.

Reuter's strategy was perfect for the 1980s, when Germany was on a roll and international competition was less cut-throat. But now, the strategy is in trouble. So Reuter has swallowed hard and proclaimed that the company will narrow its focus. "The whole strategy has just been overtaken by events," says Karl Feuerstein, deputy chairman of Daimler's supervisory board and the company's top elected IG Metall labor-union official. Reuter acknowledges the world has changed but insists that today's weak global market for luxury cars is all the more reason to diversify.



DAIMLER'S BROAD REACH

TOTAL
1993
SALES \$61.7
BILLION

TOTAL
1993
PROFITS \$2.61
BILLION

DIVISION

SHARE OF TOTAL SALES

MERCEDES-BENZ CARS AND TRUCKS

69%



AEG ELECTRICAL/ELECTRONICS

14%



DEUTSCHE AEROSPACE AIRCRAFT

13%



DEBIS FINANCIAL SERVICES

4%



GERMANY

OTHER EUROPE

AMERICAS

OTHER

PERCENT OF SALES

DATA: PARIBAS CAPITAL MARKETS

CEO REUTER: CAN HE TURN DAIMLER FROM AN OLD-LINE AUTO MAKER INTO A HIGH-TECH POWERHOUSE?

Still, in recent weeks, Reuter has looked like an embattled executive at General Motors Corp., announcing drastic layoffs and scrapping future projects. In June, Reuter vowed to cut 20,000 or more jobs from the 185,000 work force in two years. On Nov. 2, he pulled the plug on plans to build a \$650 million truck factory in eastern Germany. Now, he has announced an extended Christmas shutdown plus shorter shifts throughout 1993. In other units, job cuts are mounting, too. DASA slashed 7,500 jobs in civil aerospace. And a further 10,000 jobs could disappear if the German government finally nixes a four-nation consortium to build the \$20 billion European Fighter Aircraft (EFA).

Reuter is also wielding the knife around the group's executive suites. AEG, the manufacturing and appliance subsidiary, will soon be slashing staff at its Frankfurt headquarters to fewer than 200, from 940 now. On Mercedes' and Daimler's corporate staff, two of five management grades will disappear

on Jan. 1, and many executive jobs are under review. "It's hard getting people who lived a 40-year success story to change," says Jürgen Hubbert, head of Mercedes' car division.

Reuter's crisis management recently won him a new two-year contract to set things right. But Reuter himself has a tough boss in Daimler's blue-ribbon supervisory board, chaired by Hilmar Kopper, CEO of Deutsche Bank, which owns 28% of Daimler. Kopper and top-level union officials, who also sit on the board, decided that however tough the problems, it would be suicidal to dump Reuter. Says Feuerstein: "Kopper argued that Reuter is the only one capable of managing it, and we all agreed."

OMINOUS ATMOSPHERE. There's a growing sense of foreboding around Daimler. At a September meeting in Budapest, Reuter read Daimler top executives the riot act. He warned them that all units were facing hard times and cars and trucks would get worse yet. The mild-mannered boss called for cost savings

in every corner of Daimler's empire.

Reuter's priority is to fix the problems in autos. While Daimler may see itself as a diversified giant, in fact it is an auto company with some not-very-profitable add-ons. Last year, Mercedes' car operation produced more than two-thirds of Daimler's \$62 billion consolidated sales and nearly 80% of its \$2.6 billion pretax profits. Interest on a \$7 billion cash pile yielded an additional 15% of earnings—more than all nonauto activities combined. "Everything else falls far behind [cars]," admits Reuter. "The risk is clear: The Japanese are penetrating luxury markets."

Mercedes is feeling the Japanese onslaught most in the U.S., where it has had to hold the line on prices and even subsidize lease deals. Baby Benz stickers didn't budge for the 1993 model year, and other models rose an average of just 1%. That is battering margins, given the strength of the mark. And aggressive leasing is hurting profits, too. To keep monthly payments down,

The Corporation



Mercedes has been charging lease customers virtually no interest. Doug Aiken, publisher of *Automotive Lease Guide*, says that amounts to a \$10,000 rebate on some models.

Reuter faces other formidable obstacles at Mercedes. The company has the highest labor costs in the world (chart). Last year, about 40% of its \$5.3 billion wage bill went for paid time off. The strong German mark is another hurdle. Reuter warns that the supermark could soon "be another reason for people to move out of Germany." Mercedes is already making trucks in Mexico and is assembling some cars there from kits.

'LOST CAUSE.' Rastatt was supposed to make a big dent in costs, which were 35% higher than Toyota's—by Mercedes' own reckoning. Will Rastatt close the gap? It will "bring us within 10% to 15% of the Japanese on costs," argues car boss Hubbert, "and we think we can sell at that sort of price premium." But the new plant has its critics. They point out that Mercedes has yet to design

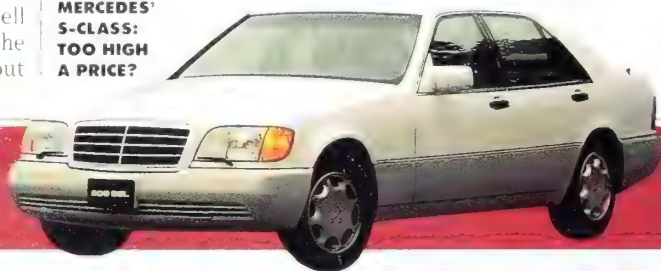
MERCEDES' SLEEK NEW PLANT IN RASTATT STILL CAN'T MATCH ITS RIVALS ON COSTS

cars for new production techniques and that Rastatt's paint and body shops won't be fully operational

until 1994. "It's a lost cause," says Detroit auto consultant James E. Harbour, who believes Rastatt staffing levels are far too high. In contrast, BMW is wringing 30% out of production costs at its U.S. plant.

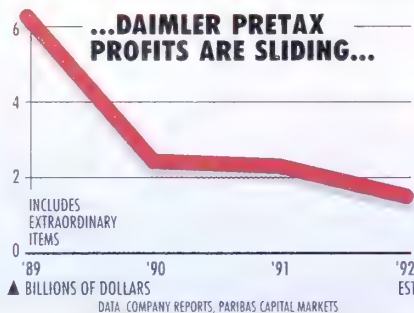
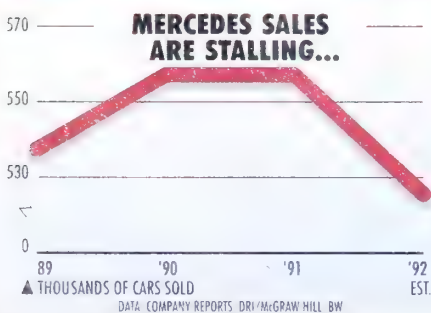
Reuter and other German bosses are banking on Chancellor Helmut Kohl's success in working out a new deal, in which labor would forgo wage hikes in return for job security. Despite the big cuts, Reuter can't slash the payroll to the bone, American-style. Worker directors sit on the board of supervisors—10 out of 20 slots at Daimler, mostly from IG Metall. Mercedes and other Daimler units are shedding jobs slowly, through a mix of early retirement and attrition.

MERCEDES' S-CLASS: TOO HIGH A PRICE?



By John Templeman in Stuttgart, with David Woodcott in Detroit, Stanley Reed in New York, and bureau reports

EVEN BIG SPENDERS HAVE STICKER SHOCK

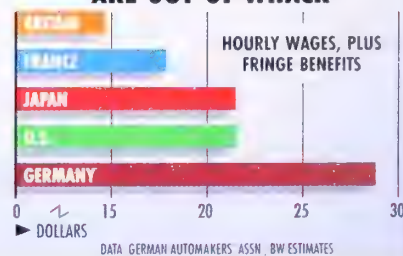


But the country won't let its flagship sink. Daimler is even more important to Germany than GM is to the U.S. One in six German jobs depends on autos. And Daimler represents Germany's entry ticket to the aviation and space industries. Reuter's board also owes him some big chips. For instance, he took over then-floundering AEG in 1988 to oblige Deutsche Bank. That's why, seated on a leather settee in a large office atop headquarters in Stuttgart, Reuter still insists he will continue diversifying—with some cost-cutting thrown in.

SUSHI FEST. Reuter is even trying to draw in the Japanese. But so far, he has little to show from three years of talks with Mitsubishi group. At the latest meetings, in October at the Hotel Okura in Kobe, nine top executives from each side shared platters of sushi and sauerkraut and sang around the piano. Still, the only tangible deal to date is help from Mitsubishi to tweak Mercedes' car-distribution channels in Japan. The two companies are still talking about a deal for the Japanese to make about 4,000 diesel engines a year for Daimler's small trucks.

In the U.S., Reuter would probably be feeling a lot more heat and perhaps would even have been forced out by now. But Daimler's long-term shareholders, who have tight control over two-thirds of the company's equity, don't panic every quarter. They have too much riding on Reuter to abandon him anytime soon. And they have been rewarded for their patience all through the postwar period. But if the betting is wrong this time and Reuter fails to turn his giant around, Daimler and Germany, Inc. alike could be limping through the 1990s.

...AND AUTO WAGES ARE OUT OF WHACK



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CALLING IN THE CONSULTANTS —TO THE CLASSROOM

McKinsey tries to pinpoint B-school weaknesses at U. of Texas—and how to fix them

The rectangular-shaped space looks as if it could be the plush boardroom of a major corporation on Park Avenue. Oil portraits of past leaders adorn the walls. The high-backed chairs around the 20-foot-long conference table are made for lengthy meetings. A pair of McKinsey & Co. consultants are ready to deliver a final report.

The only giveaway is the table. Not quite the real thing, it's topped by mahogany-looking Formica. But after all, this is not the boardroom of Megacorp Inc. It's the dean's conference room at the University of Texas business school. Like so many schools, UT at Austin is in the midst of an effort to overhaul its MBA program to make it more relevant to the business environment of the 1990s. Unlike most of its rivals, however, the school sought the help of McKinsey, the prestigious management consulting firm populated by MBAs.

PRO BONO. McKinsey's peek into the world of management education takes place at a time of massive change and introspection among B-schools. One institution after another, from Columbia University to Indiana University, is revamping the content and structure of its MBA program (BW—Oct. 26). Most schools are making the changes to satisfy corporate customers who no longer want narrowly trained analysts but crave MBAs with broader skills in leadership and teamwork. Texas faces these same challenges, but it also called in McKinsey because of another concern: The school, which frequently ranks near the bottom of Top 20 lists, was afraid of losing its status as a top-tier institution.

Since last spring, McKinsey has been studying the competitive pressures on business schools and Texas' place among them. Much as they would in a more typical strategic study for a corporate client, McKinsey consultants interviewed the business school's major constituents: students, faculty, administrators, alumni, and corporate recruiters. At one point, 10 of McKinsey's crop of MBAs

The sobering findings and a set of recommendations are spelled out in the 73 pages between the gray-blue covers of the McKinsey report. They range from the painfully obvious and simple, such as updating the school's alumni directory, to the more difficult goal of attracting more experienced and diverse applicants. One unidentified UT professor is quoted as saying that "the students



DEAN WITT WITH MCKINSEY'S PORTER AND TINSLEY, WHO URGED UT TO BE MORE AGGRESSIVE IN ITS ASPIRATIONS

returned to their respective alma maters for two- or three-day visits to study the schools' admissions, placement, and alumni-support services. All told, a team of about 14 consultants has tallied 3,800 hours on the pro bono project, one of 74 assignments the firm has performed free of charge over the last two years for clients ranging from the Joffrey Ballet to the Pittsburgh Public Theater. If McKinsey were to charge Texas for the study, the bill, at roughly \$400 an hour, would have run as high as \$1.5 million.

lack the polish of Harvard and Wharton students.... They lack the social graces and confidence, as well as leadership abilities."

For their part, students in the report fault the program for its lack of intensity, for offering few electives, and for the absence of what one called a "real world focus." Added another MBA: "The faculty is so focused on research and theory that they are not paying attention to what companies want out there."

But the toughest conclusions resul

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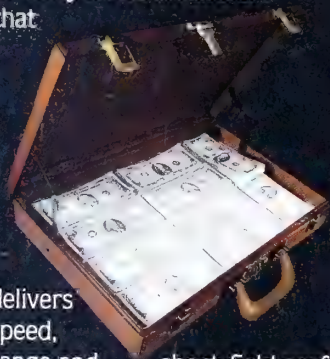
In this rapidly changing world of global business, you also need to consider a business jet that can give you access to worldwide marketplaces. Once again, Astra SP is the right choice. Its unequalled performance and range is a triumph of design finesse over brute power. And Astra is so aerodynamically efficient, it offers the highest operating speeds in its class. In fact, Astra already has 33 world speed records to its credit.

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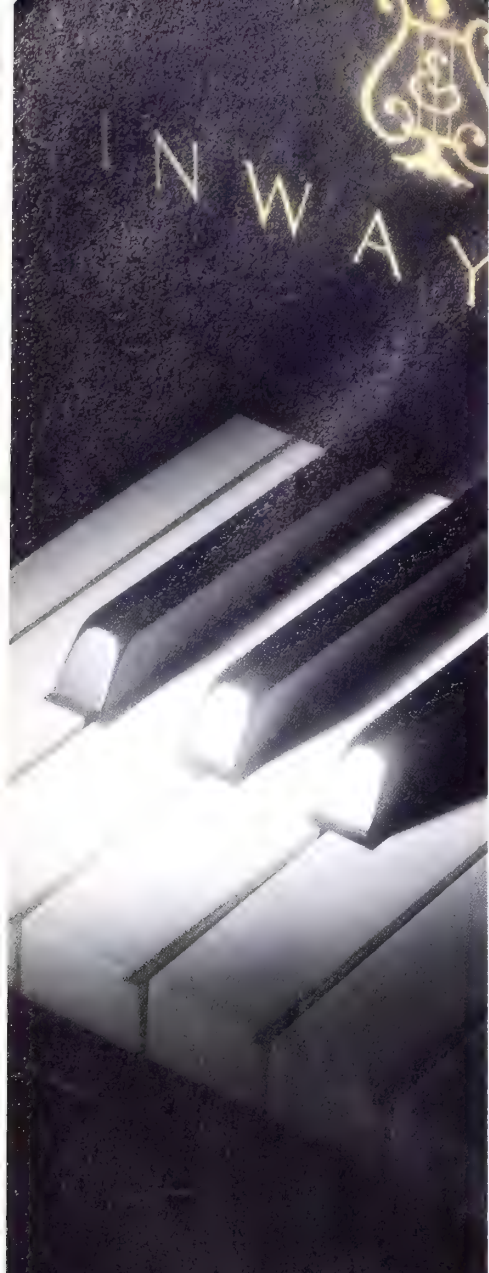
For the details and effective dates of our \$100,000 offer write or call our President, Roy E. Bergstrom, at **609-987-1125** or fax us on

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The Corporation

from McKinsey's interviews with more than 20 major corporate recruiters of MBAs and the consultants' own evaluation of Texas' student population. Their chief concern was the uneven quality of graduates from the MBA program. McKinsey found what it termed "significant deficiencies in quality of work experience, leadership, and student consistency throughout the class."

That wasn't all. McKinsey was also critical of the school's understaffed placement office. "Marketing efforts and service lack aggressiveness, creativity, consistency, and the personal touch to effectively satisfy employer and student needs," the report said.

To Dean Robert E. Witt, these are familiar complaints. In recent years, he has made major changes to the program. The McKinsey study, however, shows that Texas still has a way to go. Witt has also unveiled proposed revisions to the basic curriculum from an internal MBA task force. The faculty is expected

of Witt's top lieutenants also attend. Tinsley begins the session by urging the school to be far more aggressive in its aspirations. "You have to avoid incrementalism," he says. "You're not the only school worried about these problems. Other schools are worried in a more convincing fashion or are farther ahead than UT. And the people who pay for your graduates are getting more sophisticated about how they recruit."

Porter then weaves through McKinsey's recommendations. Texas, she notes, relies too much on test scores and undergraduate grades in admitting students. The school should interview more applicants, require at least four written essays of candidates—as do other top schools—instead of only one, and use second-year students to review the applications. Among other things, she urges more staff in admissions, placement, and alumni offices.

Near the end of the two-hour meeting the tone of the session becomes more critical. The McKinsey consultants te

A B-SCHOOL GETS A MCKINSEY WORKOVER

A team of McKinsey & Co. consultants spent nearly 4,000 hours studying the MBA marketplace to come up with a plan to move the University of Texas B-school into the top tier. Here's what they recommended:

- ▶ Improve screening process for new applicants
- ▶ Admit students with more and better work experience
- ▶ Revamp and update MBA program to lure better students
- ▶ Develop information-technology area as a specialty
- ▶ Enhance international programs, focusing on Mexico and Latin America
- ▶ Upgrade admissions, placement, and alumni offices
- ▶ Create a new stand-alone MBA and executive-education facility
- ▶ Launch a fund-raising drive to raise a \$100 million to \$150 million endowment to pay for the improvement program

DATA: MCKINSEY & CO.

to vote on these changes on Nov. 20. This final meeting in late September with the McKinsey team is to clarify the program's future direction and how aggressive the administration needs to be in setting that vision.

PAYBACK TIME. At the head of the table sits Witt, a mild-mannered academic who has been dean of the B-school for eight years. To his right is Tom C. Tinsley, a Stanford MBA and McKinsey director who has racked up about 150 assignments for the consulting firm over a 14-year stint. To his left is Suzanne Porter, a blue-suited product of Texas' MBA program who managed the assignment. For Porter, who graduated from Texas in 1985, the assignment is a chance to give back something to an institution that helped her get where she is. Two

the deans they were surprised at the tepid, unaggressive posture of the school's draft report for changing the program. For example, the consultants believe that Texas' proposed mission statement—"to produce the most competent, creative, and competitive managers possible"—isn't aiming high enough. "When you say you're going to do something as well as possible, it's sort of admitting that you may not be able to do it," says Porter.

But the consultants also agree that there are differences between the corporate world and the groves of academia. Corporations, Tinsley notes, embark on change efforts by launching major programs with catchy names and issuing marching orders to thousands of managers and executives. Universities, on the

ther hand, are more democratic institutions with strong-willed and often fractious faculties that don't take well to being ordered about. Tinsley gently asks whether Witt believes he has the full support of the faculty behind his effort. The dean agrees that some professors are "sitting on the sidelines," but he also concedes he hasn't created a sense of urgency for the changes.

That's another way in which it may be easier for corporate clients to undertake major revampings. A corporation can point to slumps in profitability or market share to underline the importance of change. "If you can't get that kind of galvanizing event here, it's going to be very difficult," Tinsley says. Ultimately,

Like a corporation, the B-school needed a 'galvanizing event' to spark a major revamping

the conversation focuses on the need for an event the dean can use to energize his institution into activity. "Maybe if you get knocked off the Top 20 list, you'll have it," jokes Porter, as gasps erupt throughout the room.

LIMITED SCOPE. Three weeks later, Porter's joke becomes an unfortunate reality: Texas drops off BUSINESS WEEK's top 20 ranking because of a lackluster showing in the magazine's survey of corporate recruiters. The student newspaper's headline that week is "Goodbye top 20!" "This is unbelievable," one disoriented student is quoted as saying. "I should have gone to Michigan."

For the McKinsey consultants, the assignment was a chance to revisit the sort of institution in which they were all forged—and, in turn, to use their real-world perspective to reshape that institution. But Tinsley later admits that the consultants' corporate experience, while helpful, has some limits when applied to an assignment for a university. "The implementation of this one will be trickier, because the ability to know whether you're succeeding is more difficult," he says. "I just hope they stay committed to the vision of improving the program." For their part, Dean Witt and his team say they're pleased with McKinsey's study. "They offered us valuable insights, guidance, and opportunity," says Eric Arnold, an associate dean. One way or another, Dean Witt has had his galvanizing event. Now, he and his administrators will have to use it to implement McKinsey's raft of recommendations to make UT a top-tier business school again.

By John A. Byrne in Austin, Tex.

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Dept 704

RAYTHEON'S STRATEGY: GUNS AND LOTS MORE BUTTER

Can its beefed-up nonmilitary units make up for arms cuts?

These days, most defense executives are trying to salvage their companies with dramatic shifts in strategy. Their tactics range from putting every business on the block for the right price (General Dynamics Corp.), to buying more arms assets (Loral Corp.) to working to convert defense technologies to civilian businesses (just about everyone else). In this crowd, Dennis J. Picard, chairman of Raytheon Co., the No. 5 defense contractor, has a novel philosophy: Stay the course.

Since 1965, the Lexington (Mass.) company has tried to keep its business about evenly divided between defense and commercial operations. The nation's largest missile maker also owns Beech commercial aircraft, three appliance units, and four energy and environmental construction operations. This eclectic mixture has produced high single-digit sales and earnings increases for seven years. And through the first nine months of 1992, profits are up 7%, to \$465 million, though sales dropped 3%, to \$6.7 billion, mainly because of falling orders for the Patriot missile of gulf war fame. Cowen & Co., the Boston broker, figures that commercial business now accounts for 42% of total sales (chart).

SCOUTING MISSION. It's true that Raytheon still earns 70% of its profits from defense. To boost nonmilitary margins, analysts have long urged the company to sell its flagging appliance operation—the nation's fifth-largest with brands that include Amana, Caloric, and Speed Queen—and reinvest the proceeds in more profitable businesses. But Raytheon argues that improvement lies just ahead. "We're looking for diversity built over 25 years to now pay off," says Senior Vice-President George W. Sarney. Investors aren't impressed: At \$43 a share, the stock is at a modest eight times estimated 1993 earnings.

Picard's response: Keep making guns and churn butter out faster. His five-year plan is to double the size of the \$1.7 billion energy and environmental-services unit, which specializes in cleaning



AT AMANA: RAYTHEON HOPES FOR A 60% RISE IN APPLIANCE SALES

up power plants, a booming field because of new clean-air rules. He also thinks he can nearly double Beech's \$1.1 billion in revenues by increasing sales to commuter airlines. And he plans to boost appliance sales by 60% based on big investments in products and plants.

The thinking is that profits must inev-

itably follow. Raytheon has poured \$173 million into new appliance plants and equipment in the past three years. Robert L. Swam, a former Black & Decker Corp. executive who recently took control of the unit, says this spending, plus consolidation and cost-cutting at Caloric, will help boost operating margins from 1.7% to nearly 5% by 1997.

Meanwhile, Raytheon is scouting acquisitions, including, says Sarney, a "modest-sized" engineering firm that analysts speculate will add about \$500 million to sales in the energy and environmental group. If the deal is done, Sarney adds, it will meet Raytheon's conservative criteria that acquisitions must immediately boost profits—without adding to the company's manageable \$1 billion debt. **'AGILE.'** Picard isn't giving up on arms making, of course. He's looking for acquisitions there, too, but is wary of overpaying. Raytheon lost a bid earlier this year for General Dynamics' missile and commercial aircraft businesses.

Failing a major acquisition, Picard hopes that higher foreign-arms orders can balance out lower domestic sales. For example, he is close to completing a Patriot-missile deal with Saudi Arabia that could mean \$1.7 billion in business through 1996. Picard expects foreign sales to increase to 40% of Raytheon's defense business over the next five years, from 20% now. At home, he is counting on the unit's strength in defense electronics—a strong business because the services constantly upgrade components of older weapons—to cushion the blow of government cuts. "Raytheon is an agile company that will handle this transition better than most [defense] companies," agrees Gordon Adams, director of the Defense Budget Project, a Washington research group.

A number of critics wonder if Raytheon isn't being too sanguine about its challenges. Whirlpool and Maytag also are investing heavily in upgrading their appliance plants. As for defense, says Robert Paulson, McKinsey & Co.'s director of aerospace consulting, "the ground underneath them is shaking." Some consultants argue that Raytheon should downsize sharply before defense cuts bite deeper.

It should be clear soon who is right. Raytheon diversified on the theory that a balance would help when defense orders dropped. They have. And now, the commercial businesses will have to show what they've got.

By Geoffrey Smith in Boston

RAYTHEON'S COMMERCIAL BUSINESS IS LARGE...

DEFENSE ELECTRONICS ENERGY/ENVIRONMENTAL
COMMERCIAL AIRCRAFT APPLIANCES

1992 SALES ESTIMATE

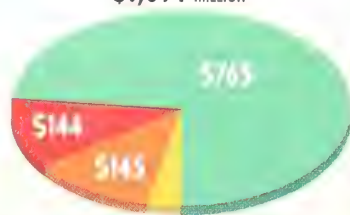
\$9.2 BILLION



...BUT NOT AS PROFITABLE AS DEFENSE

1992 OPERATING INCOME ESTIMATE*

\$1,094 MILLION



*EXCLUDING INTEREST AND CORPORATE ADMINISTRATIVE EXPENSES

DATA: COWEN & CO.



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October 23, 1992

BEWARE, BULLY-BOY BILL COLLECTORS

Consumer complaints of abusive tactics have roused lawmakers

Until 1989, Carver H. Jones described himself as a typical Yuppie, complete with BMW, Rolex, and generous credit lines. Then, his Houston-based business folded. An auto accident left him unable to work. And the phone started ringing. In a constant barrage of phone calls, Jones says, "screaming and yelling" bill collectors threatened to tell the Internal Revenue Service he had committed fraud on his tax returns, have him "picked up" by the local authorities, garnishee his wife's wages, and damage his professional reputation. "If you had told me years ago that debt collectors treated people this

tive and abusive debt collection tactics." Now, it's drafting revisions in the federal law. Although the present law imposes restrictions on collection agencies, it has significant loopholes.

The current economic slump is behind the surge of collection activity. Millions of debt-ridden consumers have fallen behind on bill payments. Beset with waves of defaults and bankruptcies, creditors are turning accounts over to collection agencies earlier and encouraging them to collect more from customers who may still be able to pay. Says Robert A. Sherman, chief of the Massachusetts Attorney General's Consumer Protection Div.: "It boils down to trying to put as much pressure as possible on the consumer to squeeze out that last dollar."

'ROCKING ALONG.' Executives in the debt-collection business discount the severity of the problem. "The collection industry is not becoming vicious," says Charles D. Bertrand, president of the 3,600-member American Collectors Assn. and owner of a Houston agency. "It's just rocking along the way it has always done." Complaints are up, he says, not because there are necessarily more violations, but because white-collar workers having their first contact with collectors are more sensitive to the calls.

"The vast majority of companies are doing a good job at abiding by the law," says Sherman. But he adds that complaints in his state jumped 70% in two years. Part of the problem, says one agency executive, is that this is "very much a Mom-and-Pop industry. Most companies are run by individuals who ... follow practices that were acceptable at some time and may not be today. It takes time to change that culture."

The alleged abuses range from annoying to unconscionable. Common complaints center on repeated, same-day calling and obscene language. Others involve calls to third parties, such as co-workers, family, or neighbors. That's what happened to Sandy Griffin, an out-of-work single mother living in Mill Valley, Calif. After 25 years of keeping up on payments on a charge card, she fell



JONES: "SCREAMING" THREATS TO HAVE HIM "PICKED UP" BY AUTHORITIES

way, I would have thought you were exaggerating," says Jones. "You have to experience it to believe it."

Jones's ordeal is hardly unique these days. Complaints to the Federal Trade Commission, which enforces the federal Fair Debt Collection Practices Act, have doubled since 1990. State attorneys general, who are also reporting increases, are pursuing complaints more vigorously. They have taken action against such high-profile targets as a unit of ITT Financial Corp. and a collection agency used by American Express Co. The House Banking, Finance, and Urban Affairs Committee's subcommittee on consumer affairs recently held hearings to "examine growing complaints of decep-

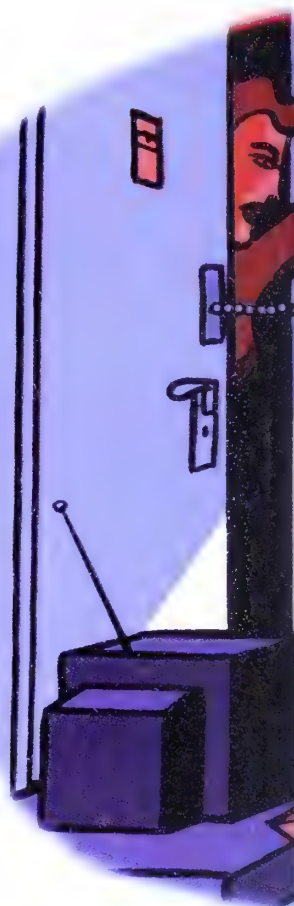
behind. Constant phone calls from a debt collector were irritating. But then, Griffin's neighbor ran up to her with an "emergency" message to call her debt collector. "I was embarrassed. I was humiliated. It was completely over my boundaries," says Griffin.

Other reported abuses are using ethnic and racial slurs and threatening deportation and jail. The most egregious involve children, says Sherman. "We've had complaints where children were told, 'We're watching your house,' or where a

IF YOUR PHONE RINGS . . .

Hearing from a debt collector is not exactly a pleasant experience. But if you get such a call, knowing the ground rules can make the experience a less intimidating.

Federal law sets broad guidelines on how debt collectors may operate. They cannot contact you at "unreasonable times or places," such as before 8 a.m. or after 9 p.m., and cannot make repeated phone calls to annoy you. If you have an attorney, you can direct the collector to him or her.





child answers the phone and says his dad is not in and the collector says: "Don't you know it's a sin to lie?"

Rather than simply go after abusive debt collectors, state attorneys general are targeting creditors and their in-house collectors, which are not covered by the FDCPA but may be subject to state laws. State laws are often broader and more stringent than the federal statute. The Wisconsin Justice Dept. recently settled a case with ITT Consumer Financial Corp., a subsidiary of ITT Financial

Corp., which is a consumer lender covered under Wisconsin's debt-collection law. Its collectors allegedly used abusive language and made calls to a consumer's family or employer, illegally identifying themselves as debt collectors. The company, which paid a \$1.3 million penalty, denied violating the law.

The FTC recently wrapped up what it calls a precedent-setting action against American Family Publishers, a seller of magazine subscriptions. The FTC said AFP violated the Federal Trade Commis-

don't have one, the collector may get other people, such as family members, to find out where you live and work. But in most instances, the collector must disclose the purpose of the call. The collector is not allowed to call you at work if your employer disapproves. As a protective measure, note when calls were made and what was said, advises Robert J. O'Connell, deputy director of the National Consumer Law Center in Boston.

Within five days after contacting you, the collector must send a written notice stating how much you owe, who the creditor is, and what to do if you don't pay the money. If you don't pay the money, send a letter stating that the collection agency by certified mail

within 30 days. Unless the agency sends proof of the debt, it is barred from getting in touch with you again. Even if you do owe the money, the agency must stop contacting you if you write and tell it to do so. The agency may contact you again if a specific action is planned, such as filing a suit. Remember that collectors cannot falsely imply they are attorneys or government representatives or falsely suggest that you committed a crime.

MEDIATION TIME. What if you think your rights are being violated? The Federal Trade Commission and attorneys general usually don't handle individual cases but will act if they see a pattern of abuse. Many states have their own debt-collection laws, which may be more specific

sion Act "when it hired collection firms and knowingly approved or assisted their use of deceptive debt collection practices." The FTC said AFP knew its collection agency was sending out letters falsely claiming that it intended to file suit, which violates the FDCPA. Under the consent agreement, AFP must monitor its debt collectors more closely.

'TOO VAGUE.' American Express, a big user of collection agencies, has also heard from enforcement agencies. After receiving complaints from AmEx cardholders, the Massachusetts Attorney General's office notified Capital Credit Corp., a collection agency used by AmEx, that it intended to file suit. The complaints included reports that Capital Credit employees had told third parties about consumers' debts and threatened debtors that they would be thrown in jail for not paying their debts. The Attorney General negotiated a \$144,000 settlement with Capital Credit and asked AmEx to sign an agreement stating that it would monitor the agencies it uses more closely. Says an AmEx spokeswoman: "We have stepped up our monitoring of collection agencies and now contractually obligate collectors to tell us about complaints, so we won't end up in a situation like that again." AmEx has stopped using the agency. Capital Credit did not admit any wrongdoing.

Consumer advocates hope the attention being paid to collectors will lead to a revised federal law that is more specific and broader in scope. The act, says Sherman, is "too vague. It outlaws harassing conduct, but what's harassment?"

Until the federal law is strengthened and the industry learns how to do a better job policing itself, bill collectors themselves can expect more harassment—from angry consumers and increasingly determined regulators.

By Suzanne Woolley in New York

than federal law or extend coverage to more kinds of companies. While federal law covers only third-party collectors, some state laws cover a creditor's in-house collectors.

Suing is also an option, albeit one that many people with financial worries don't find attractive. You can sue a collector in state and federal court within a year of the violation. Under federal law, if you win, the court can award any actual damages suffered plus any extra amount up to \$1,000. Court costs and attorney's fees can also be recovered.

For a brochure on your rights, write to Public Reference Branch, Federal Trade Commission, Washington, D. C. 20580.

By Suzanne Woolley in New York

FIRST CITY GOES DOWN FOR THE SECOND TIME

Rescued again by the feds, the Texas bank still hopes to bag a buyer

First City Bancorporation has the dubious—and perhaps unique—distinction of being a two-time loser. On Oct. 30, for the second time in four years, regulators have had to rescue the Houston-based bank holding company. First City Bancorporation of Texas Inc. was in 1988 among a series of major Texas banks that collapsed. The later failures got taken over by larger entities and are faring quite well. But at First City, which has \$8.8 billion in assets, everything that could go wrong with its rescue did.

It almost seems as if fortune singled out First City for punishment. The initial collapse resulted from the mid-1980s' plunge in oil-and-gas prices. That slammed Texas, flattening First City

Robert Abboud, the hard-charger who took over in 1988. After a brief earnings surge, the red ink began gushing, with \$224 million in losses last year and almost as much expected in 1992 (chart).

After tossing out Abboud in 1991, the bank's board cobbled together a plan to turn the place around by selling off subsidiaries, negotiating cheaper leases, and raising \$100 million in fresh capital via a stock sale. "We certainly had no indication the regulators didn't like our plan," laments board member Ralph S. O'Connor.

The feds' action, just four days before the Presidential balloting, has inspired an enticing

office of the Comptroller of the Currency and the Federal Deposit Insurance Corp., are Republican appointees.

Indeed, regulators maintain that they moved only because their annual examination, which started in September, uncovered mounting loan losses. They ordered First City to immediately and dramatically increase loan-loss reserves for its Houston subsidiary. But the bank was unable to comply. Its capital-raising plan would have taken until December at the earliest to get results, and regulators doubted it could come up with enough capital. Says an official with the comptroller's office: "It's too dangerous to leave an insolvent bank sitting around." So the feds pounced. This time the rescue will cost \$500 million in federal funds.

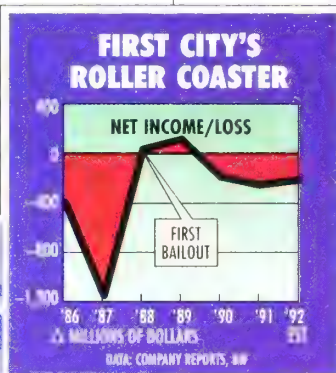
LUCKLESS VENTURES. Could a double dip have been avoided? Another reason the other Texas problem banks succeeded

was that the government assumed their bad loans. First City had to keep its lousy portfolio. The feds did kick in \$970 million to cover past losses, but "they didn't get the money they needed to cover the hole," says Dallas consultant Anthony J. Montelaro. A total of \$1.4 billion would have been required.

Still, First City might have muddled through—if it hadn't been saddled with Abboud's bold and luckless ventures. Longtime Chicago banker Abboud, who couldn't be reached for comment, promised investors fast growth and rich returns. The investment group ponied up \$500 million to fund his ambitions. But he couldn't find many promising deals in the weak Texas economy. His solution: leveraged buyouts and dicey deals. Unfortunately, a passel of loans to such supposed worthies as Drexel Burnham Lambert, Circle K, Federated Department Stores, and Garfinckel's went bye-bye when they filed for bankruptcy.

Other banks are interested in First City's twice-felled carcass, reasoning that a long-awaited Texas upturn will provide lucrative opportunities. The real enticement for bidders is federal aid. Some 13 of its 20 subsidiaries are profitable, and First City could be sold off piecemeal. At least five banks are eyeing a bid. "We're certainly interested in a government-assisted transaction," says Chemical spokesman Kenneth Herz. At First City, it's try, try again.

By Stephanie Anderson Forest in Dallas with Mike McNamee in Washington



and other major Lone Star State banks. The others, though, benefited from deep-pocketed buyers who steered them away from flamboyant, big-time lending toward more conservative banking practices. The upshot is that the 1980s' failures or near-failures, such as MCorp (taken over by Banc One), First RepublicBank (NCNB), and Texas Commerce Bancshares (Chemical Banking), have weathered the national recession quite nicely. But First City suffered from an unwisely aggressive strategy under A.

conspiracy theory. "Obviously, it had something to do with the election," says Hugh M. Ray, an attorney for a First City bondholders' group, which has petitioned a Dallas court to force the holding company into Chapter 11. Under the political scenario, career regulators didn't want to be pilloried by a Clinton Administration for holding off the bad news—in a state crucial to President Bush—until after the voting. The feds scoff at the idea, noting that the chiefs of the two bank regulatory agencies, the

SURE-SHOT SHORTS

Short sellers are hitting the right stocks at the right time

With the stock market in a state of—pardon the expression—gridlock, some smart investors are making money by picking the right stocks *not* to own. That shadowy cadre of naysayers, the short sellers, is staging a remarkable comeback. Even though the market has avoided major declines and has eked out an overall gain, short selling partnerships have seen their portfolios rise by a handsome 10% through the third quarter.

The advances made by the shorts are a triumph of adroit stock-picking under adverse circumstances. Short selling is the sale of borrowed stock, in the hope of making money by buying it back at a lower price. Although short selling comes into its own during major market crashes, shorts have lately been making money not by timing the overall market but by propitious sector-selection. In contrast to 1991, when net asset values of short-selling partnerships fell by more than 30%, in counterpoint to the market's rise, shorts this year are in the right stocks at the right time. Short sellers have nimbly capitalized on declines in biotechnology, health care, real estate, and banking. "There has been some extreme volatility in these stocks, and we've been cashing in," says Harry Chanos, a Palm Beach (Fla.) investment consultant who tracks short sellers.

RETICENCE. Despite their recent success, short sellers remain bloodied. Short partnerships are still feeling the effects of the 1991 massacre, which saw a dramatic change in the short-seller pecking order. Since the early '80s, the most visible short sellers have been the Feshbach

others of Palo Alto, Calif. The Feshbachs' flagship partnership declined 10% in '91 and, Wall Street sources say, lost a further 0.3% through Sept. 30—making them one of the few shorts to sustain losses this year. With their findings said to have been lenient from nearly \$1 billion in 1990 to \$150

STOCKS AT MIDDAY -2-: IN
ELECTION
WEST SAVINGS BANK 40 NET
JBK



HOLLAND: HIS PICKS WERE LARGE-CAP PHARMACEUTICALS

million, as investors fled, they have been supplanted as the nation's largest shorts by New York money manager James Chanos, who manages \$550 million in short portfolios. Chanos and the Feshbachs declined to be interviewed for this story.

Such reticence is understandable: Nowadays, most short sellers work for nothing. They get the bulk of their income from performance fees, usually about 15% of profits. But most partnership agreements don't allow short-fund managers to draw fees until they've recouped any losses. Since short partnerships fell so sharply last year, the average fund must climb by an additional 25% before it can draw performance fees again. Thus, capital preservation is paramount. "For the most part, nobody got paid this year—it's still lean times. So they're a lot more gun-shy than they were in '91," says Mike Long, whose hedge fund, Rockbridge Partners, tracks and invests in short sellers. Market gains in October cut

into short-seller profits, accentuating the need to reduce risk by diversification and less use of leverage.

But even though they have done well and are becoming more conservative, shorts are still coming up short at a longtime goal—attracting institutional investors. Pension funds and endowments remain wary of putting money into short funds. Some tested the short waters toward the end of 1990, but that was bad timing. "Every institution that went into short selling has lost money," notes Michael Murphy, a San Francisco short seller and editor of the *Overpriced Stock Service* newsletter.

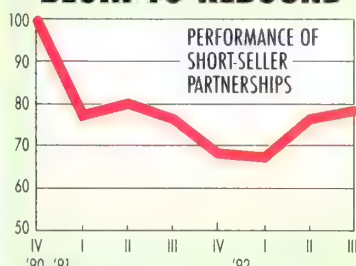
HOT PICKS. Still, shorts are trying hard to make institutions more comfortable with bearish strategies. One money manager, New York's Leuthold Weeden & Associates, has created an institution-oriented short portfolio of about

50 large-capitalization stocks, selected through 13 computer screens. "It has a bias toward stocks with \$1 million in trading volume a day. That way, you don't have any problem with short squeezes," says John K. Holland, the firm's president. In a short squeeze, brokerages or investors make short sellers buy back the stocks they have borrowed, pushing up the price and hurting the shorts. Short squeezes are difficult to engineer in large-cap stocks.

Holland's fund made money by shorting large-cap pharmaceutical stocks such as U.S. Surgical and T2 Medical. General Motors Corp. was another well-timed pick. Likewise, Murphy also aims for big game. Although his newsletter strives to identify marginal small companies and scored big with ill-fated retailer Cascade International, Murphy's bread-and-butter picks are large-cap stocks. He recently covered short positions in major brokerages such as Salomon Inc. and Bear, Stearns & Co., and his recommendations are top-heavy with banks, such as Chase Manhattan Corp. and BankAmerica Corp. "I think a lot of people are shorting cyclical disappointments," observes Murphy. True. But if the market stages a postelection rally, shorts will have a long wait for their next paycheck.

By Gary Weiss in New York

SHORT SELLERS BEGIN TO REBOUND



▲ INDEX: DEC. 31, 1990=100

DATA: ROCKBRIDGE PARTNERS

'THERE'S NO BAD RISK, JUST A BAD PRICE'

How nimble auto insurers are making a bundle

Bad driving records. Poor credit risks. Spotty job histories. That is a good description of the customer base of Integon Corp., a Winston-Salem (N.C.) automobile insurer that specializes in, and makes big profits from, risks that other insurers shun. Its secret? High premiums. "There's no bad risk, just a bad price," says Senior Vice-President Art Lyon. Integon will write about \$350 million in auto policies this year, up about 18% from last year. Integon also relies on a highly automated processing operation, which helps keep its overhead and claims costs well below \$1.06 per \$1 of premium, the industry average, excluding investment income.

Integon is among a handful of carriers that have learned how to survive and prosper in one of the nation's most treacherous insurance markets. Over the past few years, soaring repair costs and medical expenses have led to sharp premium hikes that, in turn, have sparked public outrage—and a state-regulator crackdown. Many states are disallowing rate increases, and California is attempting to force insurers to roll back their rates. Profit margins are so thin for such major auto insurers as Aetna Life & Casualty and Allstate Insurance Cos. that they have cut back their operations in some states and withdrawn from others. Allstate, for instance, is trying to get out of New Jersey.

Filling the void in the \$80 billion market are savvy, cost-conscious niche players that, like Integon, target riskier market segments, such as sports-car aficionados and urban dwellers unloved by huge insurers. The few large insurers doing well in this market are the so-called "direct sellers" such as GEICO Corp., which use mail marketing instead of a costly agent force.

FREING AGENTS. Companies still in the business are being helped this year by an unexpected upturn in profitability (chart). Indeed, 1992 could wind up being one of the best. The reason is the recession, which has made people drive less, holding down the accident rate and reducing the cost of replacement parts.

Among the other niche carriers that are doing well is Robert Plan Corp., a Lynbrook (N.Y.) insurer whose \$700 mil-

lion of auto business is concentrated in urban neighborhoods that mainline companies shy away from. "People don't want to write [policies] where I am," says President Robert M. Wallach. His unorthodox business methods include using undercover stings to combat insurance fraud. Wallach is eyeing a grab for Allstate's New Jersey business.

The direct marketers have prospered

Even companies still dependent on agents are picking up some tricks from the direct sellers. ITT Hartford Insurance Group has an agent network, but it is using direct mail to solicit auto business from members of the American Association of Retired Persons. The \$600 million-a-year business "is producing our target, which is a 15% return," says Hartford Senior Vice-President David M. Klein. The company has instituted a new program for its regular agents in which it takes over the after-sales service and renewals while cutting back a third of the agent's commission. "We want to free the agent from this service work," says Klein.

Amid all the turmoil, industry leader State Farm Mutual Automobile Insurance Co., which sells through agents, has held up rather well, boasting a 15% return last year. Company manager



from the suffering of the old-line companies. While Aetna has been losing market share, GEICO has been gaining customers through direct mail. Not only does the insurer do without a large agent contingent, it also handles customer queries via an 800 number. "We are finding with this economy, people are shopping carefully," says GEICO President Edward H. Utley. "They're more used to buying over the phone."

credit its success to, among other things, its superior risk analysis for new prospects and careful pricing.

But State Farm is an anomaly. For most of the major players, auto insurance is a tough line of work. As William L. Yankus, vice-president at industry analysts Conning & Co., puts it: "This one business where it just doesn't pay to be the biggest."

By Tim Smart in Hartford

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HITACHI

BY GENE G. MARCIAL

METROMEDIA AND RESURGENS: A POWERFUL UNION

Billionaire media mogul John Kluge is back. This time, the Kluge play is in telecommunications. His privately owned Metromedia is acquiring Resurgens Communications Group, an Atlanta-based long-distance telephone carrier. The Oct. 26 announcement of Resurgens' merger into Metromedia Communications, a subsidiary of Metromedia, has kicked up Resurgens' stock to 18 from 14 a share on the American Stock Exchange.

The betting is that the stock of the combined Resurgens-Metromedia company, which will retain the name Metromedia Communications, will move to the New York Stock Exchange early next year. Kluge, who will own 60% of the expanded Metromedia Communications, is expected to be the chairman, with Jack Phillips, Resurgens' president and CEO, taking on those same positions at the new company. Even before the move to the Big Board, several money pros figure that the Resurgens-Metromedia stock will be worth at least 36 a share, based on projected earnings of the combined companies. Together, revenues are estimated at \$500 million, making the company the nation's fourth-largest long-distance carrier after American Telephone & Telegraph, MCI Communications, and Sprint.

Here's how some analysts came up with a value of 36 a share: Applying a 17% operating profit margin, they estimate profits of \$85 million, or \$51 million after taxes. And based on 21 mil-

lion shares outstanding after the merger, per-share net comes to \$2.40. With the industry trading at an average price-earnings ratio of 15, one analyst says the company deserves at least a 15 p.e. With such a ratio, the stock is worth 36. He also notes that while MCI and Sprint are trading at 1 to 1½ times their annual revenues, Resurgens-Metromedia is trading at only 0.6 times revenues.

Part of the optimism about the new Metromedia Communications stems from projections by some insiders that annual revenues will easily jump to \$1 billion in just a matter of months, mainly through acquisitions. Kluge already has a "task force" in place, believed to be headed by Phillips, to pursue such ventures. An investor familiar with the group's plans says deals "will be done quickly."

As a result, a group of investors who follow Kluge's moves has been snapping up Resurgens shares, says one New York money manager, "before the Street wakes up to the potentials of Resurgens." Right now, he adds, "Resurgens, with all its prospects under the Metromedia umbrella, is the cheapest buy in the business."

SWEEPING UP WITH CLINTON-GORE

One graphic example of how much environmental-service companies have fallen from investor grace is OHM. In its heyday in 1987, when pollution-control stocks were very much in vogue, OHM traded as high as 36 a share. Since then, they have hit the skids. OHM crashed to single-digit levels and is currently trading on the Big Board at 6%. So why are some value investors buying shares?

The environmental cleanup business is turning up quite dramatically for OHM, whose key business is the on-site remediation, or detoxification, of hazardous waste, says Ed Wachenheim III, chairman and CEO of Greenhaven Associates. OHM's earnings were very badly hurt in recent years because the recession hit when the company's expenses were rising sharply as OHM expanded into the Southern and Western states. But business has improved, with order backlog rising 50%, to \$370 million as of Sept. 30, from a year ago.

"OHM should materially benefit from increased environmental spending under a Clinton-Gore government," argues Wachenheim, who ranked third in performance among money managers

over the past 12 months. He expects OHM to boost earnings to 20¢ a share this year, 60¢ next year, and more than \$1 in 1994. One kicker: OHM is expected to put its three other small businesses on the block: 70%-owned NSC, a publicly traded asbestos-abatement company; 50%-owned Concord Resources, which owns two waste-dump sites; and Solidtex Systems, which owns a detoxification facility.

Oil and chemical companies are OHM's big customers, but its next target will be city and municipal governments, says Wachenheim. He believes that with OHM's much-improved business outlook, the stock is worth at least twice its current price.

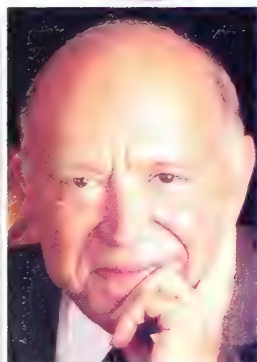
NO MUSIC TO THE SHORTS' EARS

Blockbuster, the nation's largest video retailer, remains high on short sellers' lists. But the company, already on the rise partly because of its recent decision to buy two musical-record retailers, may deliver an even bigger headache to the shorts. Now at 14 a share, up from 11 in July, Blockbuster could wing to 25 over the next 12 months, says Charles LaLoggia, editor of the *Special Situation Report* newsletter.

Here's the scoop: Whispers are that Blockbuster has developed a new technology—with a big assist from IBM and Digital Equipment—that would "revolutionize" the retailing of videos and recorded music. The technology, says two analysts familiar with Blockbuster's "secret plan," will enable customers to listen to a selection of recorded music or videos in private booths. The store will then produce the selections right at the site without the need to carry inventory.

The digital music and videos would be stored in a computer at a central location, explains an analyst, and then downloaded over high-capacity phone lines to in-store production equipment. This "music-on-demand" service, he says, could become a big profit maker for the company. Blockbuster is expected to earn 75¢ a share this year, vs. last year's 56¢, and \$1 next year.

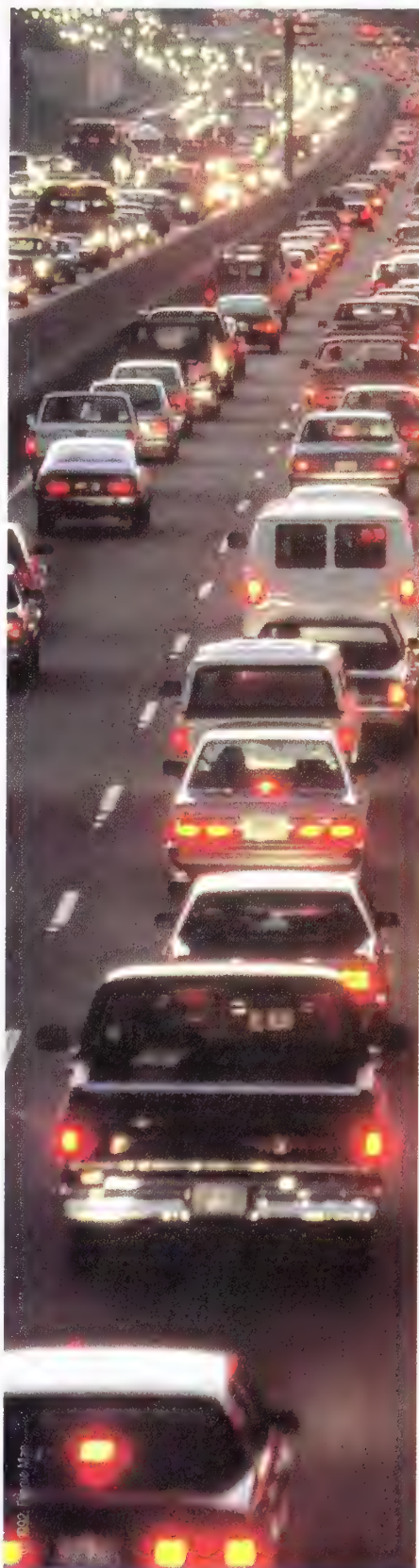
The new system will be introduced early next year, says this analyst. He says Blockbuster is looking for a partner that could supply the hardware for the system. The candidates include: IBM, Digital Equipment, and Philips, the Dutch electronics giant, which owns 7.9% of Blockbuster.



PHILLIPS (TOP) WILL BE THE NEW VENTURE'S CEO. KLUGE IS EXPECTED TO BE CHAIRMAN

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AT LAST, THE PAYOFF

PROFITS SOAR AFTER TWO YEARS OF CUTTING COSTS AND TRIMMING DEBT

For two years straight, companies across the country have been skinning off layers of debt, slicing fat, and cleaning up their balance sheets. But despite all the pain, the wave of restructuring that swept through Corporate America was slow in producing results. In 1991, profits plummeted quarter after quarter on skimpy sales gains. And while the first half of 1992 showed promising improvements, the economy remained weak. Analysts waited with

crossed fingers, wondering if cost cuts and lower interest rates could produce truly impressive results.

Well, the guesswork is over. After all the bloodletting, corporate profits soared in the third quarter. Earnings for the 900 companies in BUSINESS WEEK's Corporate Scoreboard rose by a stunning 31% before extraordinary items. Not only are the results much better than the 20% earnings gain posted in the second quarter, but they also represent the

biggest quarterly leap since the pre-recession days of 1987, when profit climbed 37% in the third quarter. What's more, if not for IBM's staggering \$2.8 billion loss because of massive restructuring charges, profits in the latest period would have risen by an even more impressive 41%.

True, this year's third-quarter figures prepared by Standard & Poor's Compustat Services Inc., are benchmarked against one of the worst periods on record.

WINNERS AND LOSERS IN THIRD QUARTER PROFITS

THE INDUSTRIES

THE COMPANIES

THE SHARPEST GAINS

THE DEEPEST DROPS

WHO MADE THE MOST

WHO LOST THE MOST

	Percent change from 1991's third quarter		Percent change from 1991's third quarter
SEMICONDUCTORS	1,285%	COMPUTERS & PERIPHERALS	LOSS
RAILROADS	618	AIRLINES	LOSS
CONGLOMERATES	442	STEEL	LOSS
BANKS—East	351	HEALTH-CARE SERVICES	LOSS
AUTO PARTS	218	ALUMINUM	-57
FOREST PRODUCTS	192	FOOD PROCESSING	-37
GAS UTILITIES	177	RETAILING	-29
BANKS—West & Southwest	173	APPAREL	-27
BROADCASTING	134	SAVINGS & LOAN	-26
TEXTILES	126	FOOD RETAILING	-23
MACHINE & HAND TOOLS	113	MISC. LEISURE	-23
BANKS—South & Southeast	105	TRUCKING & SHIPPING	-23
ELECTRONICS	103	AEROSPACE	-22
COMPUTER SOFTWARE & SERVICES	92	APPLIANCES	-18
INSTRUMENTS	67	CONSTRUCTION & ENGINEERING	-16

	Millions of dollars		Millions of dollars
PHILIP MORRIS	\$1,291	IBM	\$2,778
EXXON	1,135	SEARS ROEBUCK	834
GENERAL ELECTRIC	1,110	GENERAL MOTORS	753
AT&T	963	BORDEN	377
MERCK	644	FIRST CHICAGO	365
BRISTOL-MYERS SQUIBB	589	SUN	320
COCA-COLA	541	ELI LILLY	268
GTE	500	HCA-HOSPITAL CORP. OF AMERICA	268
BANKAMERICA	476	DIGITAL EQUIPMENT*	260
DU PONT	475	HARTMARX	214
AMOCO	466	AMERICAN EXPRESS	205
PROCTER & GAMBLE*	431	SANTA FE PACIFIC	163
SOUTHERN	430	FORD MOTOR	159
AMERICAN HOME PRODUCTS	428	LSI LOGIC	111
PEPSICO	426	DELTA AIR LINES*	107

ALL-INDUSTRY AVERAGE: +31%

*Fiscal first quarter

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

d. Profits drooped 22% in 1991's third quarter, while the economy was still mired in the recession. But it isn't just the quarter comparisons that make the last quarter look good: Net profit margins stood at a respectable 4.2% in the third quarter. That's not as good as the 6.2% margin that prevailed in 1988 when the economy was expanding at a robust pace. But it's still better than the 3.4% that marked 1991's third quarter.

MAGIC. The profit surge is the strongest evidence yet that the massive restructuring among companies can indeed work wonders on the bottom line. "Finally, low labor costs, interest costs, and energy costs performed their magic," says economist Mark Zandi of Regional Financial Associates, a West Chester (Pa.) consultant.

And with corporate cost reductions working at full force, economists argue that the fine showing in the third quarter will be repeated in the fourth quarter and beyond. "The improvements we're

seeing are going to lay the foundation for a strong 1993," says Zandi, who sees a 22.5% earnings gain in the final quarter. For all of 1993, Zandi forecasts a 15.2% profit increase. Already, 1992 is looking much better than last year. Profits were up 19% in the first nine months.



COMPANIES ARE CONTINUING TO HACK AWAY AT OPERATING EXPENSES

By contrast, earnings had fallen 17% in the same period a year ago.

A major reason for the upbeat forecast: Companies continue to hack away at operating expenses. "Firms that downsized two to three years ago are doing it again," says Lacy Hunt, chief economist at HSBC Holdings PLC. Even

healthy companies with robust earnings are announcing plans to cut more bodies this quarter. Compaq Computer Corp., with a 50% sales gain in the quarter, just announced a 10% cut in its work force.

The cost-slashing could even help the economy rebound smartly at some point.

To reduce carrying costs, companies have pared inventories to the bone: Compared to sales, inventories are now at a record low. That means even a modest improvement in demand would boost overall production.

Unfortunately, surging profits don't necessarily mean that the economy has kicked into high gear—especially since those continuing layoffs make for ongoing consumer jitters. Economist Edward F. McKelvey of Goldman, Sachs & Co. points out that improved productivity, while beneficial to the economy, is no substitute for strong sales. Indeed, sales rose 6%, better than last year's flat results, but much weaker than the 10% to 12% gains that could be expected in a

WINNER: AT&T's results showed a sharp rebound from last year's loss, which was mostly due to the NCR takeover



Corporate Scoreboard

typical recovery. Moreover, in sheer dollar terms, companies still have a long way to go. The companies that are listed in BUSINESS WEEK's Corporate Scoreboard earned \$46.9 billion in the third quarter of 1988, the last boom period before the recession. That's roughly \$7 billion more than in the latest period.

And then there's a growing concern that companies may take restructuring too far. In their quest for wider margins, cost-conscious CEOs could wind up without the kind of capacity and experienced workers that they'll need when the economy finally snaps back. Layoffs and other cost-cutting measures have become "an addiction," warns Eric Greenberg, a researcher with the American Management Assn. "You get to the point where the cure is worse than the disease."

BRIGHT STARS. Still, no matter how the experts try to slice it, the third quarter brings welcome news across many industry groups. The semiconductor industry, with a phenomenal 1,285% increase in profits, topped the list of industry winners. Strong demand for personal computers didn't hurt. Last year, the sector posted a meager profit of only \$25 million. In the latest quarter, stars such as Intel, Analog Devices, and Advanced Micro Devices burned brightly, propelling the industry to profits of \$362 million. Analog Devices' 743% increase was a result of higher sales and improved margins.

Railroad companies, which last year

were among the big losers, posted a solid 618% gain in profits. Again, much of the increase comes from the comparison with last year's poor showing. But a couple of companies posted strong sales growth as well. Union Pacific Corp.'s earnings benefited from increased railway traffic, as well as efficiency measures. And Kansas City Southern Industries Inc., a bit more diversified than other railroad companies on the list, tallied a 20% hike in sales in the period.

Banks continued to prosper, despite—

more than eightfold, to \$21.5 million. The telecommunications sector also showed a strong profit improvement, up 241%, to \$4.3 billion. But this was somewhat exaggerated by the results at American Telephone & Telegraph Co., which earned \$963 million after a loss of \$1.8 billion a year ago, much of it resulting from charges related to the company's takeover of NCR Corp.

Of course, not every company was celebrating the quarter's results. The biggest losing sector in the three months ended on Sept. 30 was computer and peripherals, where losses hit \$2.4 billion, compared with a profit of \$592.5 million a year ago. IBM and Digital Equipment Corp., whose profits suffered from poor sales and restructuring costs dragged down the group. Without Big Blue, the entire office equipment and computer industry would have chalked up a 34% profit increase, or \$1.2 billion.

Results in the airline industry also worsened, as increased traffic failed to offset the damage left by the summer time fare war. In total, the industry lost \$271.7 million, compared to a loss of \$25.7 million last year. Companies with the steepest declines were Delta, AMT, America West, and USAir. The only cheery news in the skies came from Southwest Airlines, whose earnings climbed 71%, to \$26.9 million.

Health-care services, one of the strongest sectors in 1991, was another losing industry as revenue growth slowed. Ho-



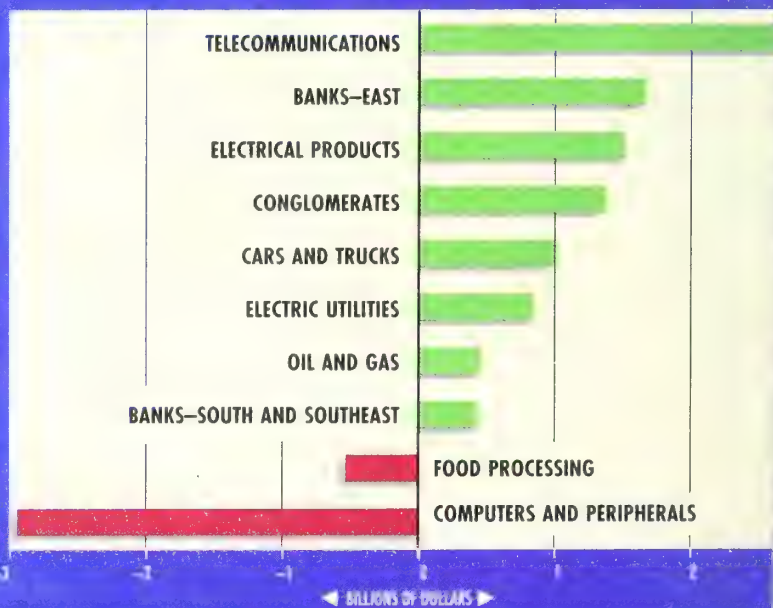
AIRLINES AND STEEL WERE HARD HIT BY FIERCE PRICE COMPETITION

or perhaps because of—their propensity not to lend these days. The 51 banks listed in the Scoreboard earned \$4.3 billion, up 145% from a year ago. Banks have been offering miserly interest rates to depositors, investing their cash in relatively high-yield government securities, and benefiting from the spread. While real estate exposure is still a question for many banks, problem-credit costs related to consumer and other commercial loans are down. Crestar Financial Group, based in Richmond, Va., posted the biggest profit gain, with earnings up

A SPOTLIGHT ON THIRD-QUARTER PROFITS

The 31% jump in third-quarter profits is the highest percentage increase since the second quarter of 1988. Telecommunications looked particularly good compared with the dismal results that followed AT&T's 1991 charge for the NCR acquisition. Likewise, car and truck manufacturers had better results than a year ago in spite of losses at GM and Ford

INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER



ant K. Shah of HKS & Co., an investment research firm, notes that health-care companies are under severe pricing pressures. "The buzzword in Washington is to control health-care expenses regardless of who's elected," remarks Shah. The results at HCA-Hospital Corp. of America also helped depress the sector. Loaded down with more than \$2 billion in debt, the company took an after-tax charge of \$333 million in the third quarter to restructure its flagging psychiatric hospitals.

Drug companies have been facing similar pressures from Washington, not to mention customer resistance. The industry will have trouble relying on steadily rising prices for earnings increases. Industry profits are down 4%, to \$2.7 billion. While Bristol-Myers and Merck were among the most profitable companies on the scoreboard this quarter—with over a billion in earnings between them—Eli Lilly's \$268 million loss may be a sign of tougher times for the drug group in the future. Lilly wrote off \$520 million, before taxes, for restructuring and special charges. "I don't see it getting any better in the fourth quarter," Shah says of the industry.

The auto industry also remained mired in red ink, though the losses were less than in last year's dismal third quarter. Automakers collectively lost \$741.6 million, after a \$1.7 billion loss last year. The one bright exception was Chrysler Corp., which earned \$202 million, compared to an \$82 million loss a year earlier. Chrysler's shining quarter was the



LOSER: IBM's \$2.8 billion loss dragged down results for the computer group

result of increased operating efficiencies and higher sales of trucks. The auto maker also had the largest increase in nine-month sales figures of any car company on the Scoreboard. Chrysler sales rose 26%, to \$26.7 billion, in the January-September period.

SKITTISH. Looking ahead, many analysts are worried that the improving trend in profits may eventually begin to trail off. While it's true that companies will continue to improve productivity and lower interest rates will help managers reduce corporate debt costs, the benefits

of such trends can't last forever.

While a pickup in sales would help avert such a falloff in earnings growth, economists don't see that happening. So far, there is little sign that consumers have overcome their skittishness. Even low interest rates haven't enticed them to spend much. In addition to worrying about their jobs, households are still coping with a staggering debt burden, says economist Gary Shilling. "Eventually, 10 years down the road, the debt will be worked down enough for lower interest rates to be a stimulus," says Shilling. Exports aren't expected to provide much help, either. After growing by 35% during 1988, they're now expanding at only 3%. And it is doubtful that trade volumes will improve soon. Europe is in the grip of its own recession, and Japan is beginning to feel the pinch as well.

The poor sales outlook still worries economists. Despite improvements in profits, industrial companies haven't yet begun to spend more on plant and equipment or to hire new people—typically the two critical engines of a strong recovery. Shilling worries that companies will have to downsize even more. And the prospect of more layoffs may further spook consumers.

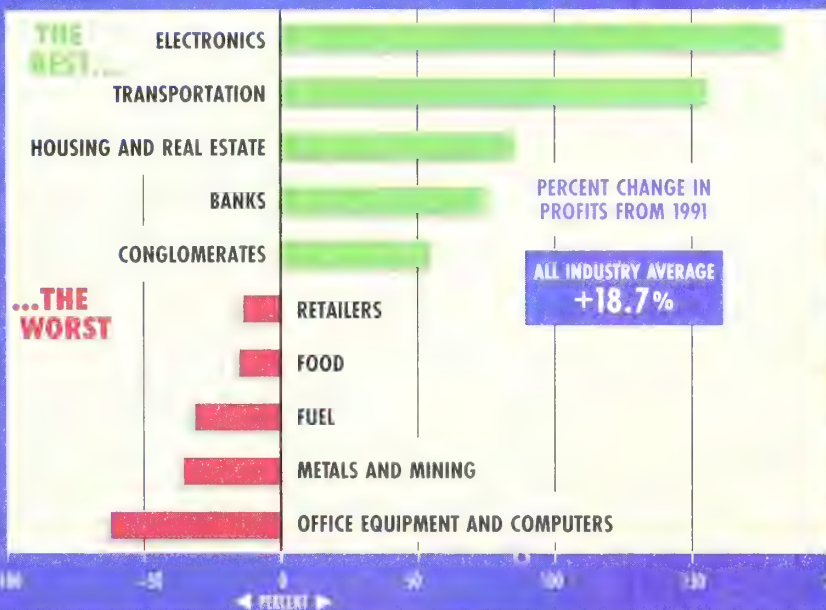
Still, thanks to restructuring and lower interest rates, companies are in the best shape they've been in for some time. And if the economy picks up a little speed, a leaner, meaner Corporate America may finally catch the tailwind it has been waiting for.

By Laurel Touby in New York

AFTERTAX PROFITS, QUARTER BY QUARTER



RANKING THE INDUSTRIES FOR THE FIRST NINE MONTHS OF 1992



A black and white photograph of the Space Shuttle Freedom in orbit. The shuttle is oriented diagonally, with its large solar panel arrays extended. The Earth's horizon is visible in the lower left corner, and a bright sun is in the upper right corner.

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Performance Above And Beyond

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CORPORATE SCOREBOARD

THIRD QUARTER 1992

GLOSSARY

Sales: Includes all sales and other operating revenues. For banks, includes all operating revenues.

Profits: Net income before extraordinary items. For banks, profits are net income after security gains or losses.

Margins: Net income from continuing operations before extraordinary items as percent of sales.

Return on common equity: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

Price-earnings ratio: Based on Oct. 23, 1992, common stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

Earnings per share: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE- EARNINGS RATIO 10/23	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
ALL INDUSTRY COMPOSITE	964868.6	6	2842696	5	40200.6	31	122142.9	19	4.2	3.4	9.8	23	1.66
AEROSPACE													
INDUSTRY COMPOSITE	25638.1	-5	80081.7	2	747.1	-22	2670.1	0	2.9	3.5	8.7	14	2.81
Boeing	6897.0	-10	22687.0	5	364.0	-9	1258.0	8	5.3	5.2	19.0	8	4.86
GenCorp (1)	452.2	-6	1413.2	0	4.9	4	20.7	34	1.1	1.0	16.9	8	1.16
General Dynamics	1661.0	16	4842.0	7	62.0	55	184.0	-28	3.7	2.8	10.0	14	6.71
Grumman	783.6**	-22	2607.1	-10	21.4	-6	80.9	8	2.7	2.3	10.3	7	3.04
Lockheed	2474.0	4	7180.0	2	86.0	6	229.0	12	3.5	3.4	13.1	9	5.32
Martin Marietta	1548.8	8	4504.7	2	96.1	-4	269.7	0	6.2	7.0	16.6	9	6.49
McDonnell Douglas	3960.0	-11	12965.0	-5	-52.0	NM	37.0	-83	NM	1.8	4.5	10	4.57
Northrop	1293.6	-17	4035.9	-2	-32.5	NM	65.7	-40	NM	3.0	17.9	5	4.75
Bohr (5)	349.2	-14	954.9	-10	9.3	-17	-7.3	NM	2.7	2.8	0.3	NM	0.08
Sundstrand	416.6	3	1213.0	0	26.3	-4	44.1	-26	6.3	6.8	18.4	14	2.66
Teledyne	138.0**	19	419.7	22	6.2	4	22.7	6	4.5	5.1	13.6	15	1.83
Thiokol (6)	289.0	0	982.3	3	13.5	2	48.6	12	4.7	4.6	16.3	5	3.13
United Technologies	5375.0**	2	16277.0	5	142.0	19	417.0	105	2.6	2.3	-21.4	NM	-7.30
AUTOMOTIVE													
INDUSTRY COMPOSITE	72340.8	8	228861.4	12	-451.1	NM	636.0	NM	NM	NM	-3.6	NM	-1.37
CARS & TRUCKS													
GROUP COMPOSITE	63619.3	8	202812.5	12	-741.6	NM	-177.2	NM	NM	NM	-5.8	NM	-2.32
Chrysler	9216.0**	22	26721.0	26	202.0	NM	149.0	NM	2.2	NM	2.8	39	0.67
Ford Motor	23325.3	10	74725.4	13	-158.9	NM	681.4	NM	NM	NM	0.2	NM	0.07
General Motors	29435.2**	2	96666.1	8	-752.9	NM	-930.7	NM	NM	NM	-11.9	NM	-6.31
Navistar International (2)	920.0	7	2736.0	4	-50.0	NM	-117.0	NM	NM	NM	NM	NM	-0.84
Paccar	722.8	17	1964.0	16	18.2	7	40.1	95	2.5	2.8	5.7	31	1.76
PARTS & EQUIPMENT													
GROUP COMPOSITE	5249.3	10	15880.2	11	132.9	218	394.7	930	2.5	0.9	7.9	22	1.59
Arvin Industries	475.5	13	1435.1	15	12.3	52	31.9	118	2.6	1.9	6.8	16	1.63
Cummins Engine	903.6	6	2733.0	8	14.0	NM	40.1	NM	1.6	NM	4.5	37	1.80
Dana	1186.6**	10	3612.6	11	18.4	268	39.6	238	1.6	0.5	3.5	43	0.96
Donaldson (5)	128.3	13	369.0	7	7.4	30	19.6	16	5.7	5.0	17.5	20	1.84
Knorr-Picher Industries (1)	155.4	3	450.1	1	8.2	NM	21.6	NM	5.3	NM	NM	1	2.19
Wabash	945.0	12	2905.0	16	28.0	33	103.0	203	3.0	2.5	10.7	20	3.83
Chloride (4)	478.4	12	1366.7	8	19.9	64	51.2	67	4.2	2.8	9.6	17	1.15
Federal-Mogul	297.9	11	905.9	9	4.2	50	11.7	234	1.4	1.0	-9.7	NM	-0.72
Modine Mfg. (9)	144.6	9	415.6	9	8.7	18	24.9	57	6.0	5.6	13.6	15	2.09
Smith (A. O.)	231.4	8	757.7	15	4.6	226	23.2	957	2.0	0.7	8.0	11	2.68
Standard Motor Products	138.3	2	417.9	0	2.8	45	5.9	-25	2.0	1.4	3.0	35	0.36
Standard Products (6)	164.4	8	511.6	11	4.4	582	21.9	NM	2.7	0.4	15.2	11	2.50
TIRE & RUBBER													
GROUP COMPOSITE	3472.3	6	10168.6	9	157.5	63	418.4	404	4.5	3.0	15.1	16	3.16
Goodyear	154.3	2	430.5	2	22.4	0	60.6	12	14.5	14.9	25.6	19	3.10
Cooper Tire & Rubber	305.2	6	880.7	18	31.8	44	78.6	46	10.4	7.6	20.4	25	1.25
Goodyear Tire & Rubber	3012.8	6	8857.4	9	103.3	98	279.3	NM	3.4	1.8	13.0	12	5.47

Third quarter ended Aug. 31. (2) Third quarter ended July 31. (3) Fourth quarter and most recent six months ended Sept. 30. (4) Fourth quarter and most recent six months ended Aug. 31. (5) Fourth quarter and most recent six months ended July 31. (6) First quarter and most recent six months ended Sept. 30. (7) First quarter and most recent six months ended Aug. 31. (8) Second quarter and most recent six months ended July 31. (9) Second quarter and most recent six months ended Sept. 30. (10) Second quarter and most recent six months ended Aug. 31. Second quarter and most recent six months ended July 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-23	12 MONTH EARNING PER SHARE	
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %				
3 BANKS														
INDUSTRY COMPOSITE	49927.6	-5	148773.0	-7	4342.4	145	12542.1	75	8.7	3.4	10.2	14	2.73	
(a) BANKS - EAST GROUP COMPOSITE	26786.3	-8	79893.9	-9	2140.1	351	5853.5	153	8.0	1.6	10.3	13	2.59	
Bank of Boston	1338.9	17	3965.7	22	51.6	186	135.5	NM	3.9	1.6	13.0	8	2.72	
Bank of New York	900.0	-13	2710.0	-16	98.0	67	264.0	370	10.9	5.7	10.0	11	4.07	
Bankers Trust New York	1662.0	1	4991.0	-4	211.0	14	591.0	12	12.7	11.3	22.1	8	8.42	
Chase Manhattan	1524.0	-47	4437.0	-50	176.0	29	470.0	22	11.5	4.7	10.5	7	3.40	
Chemical Banking	3031.0	-13	9298.0	-12	282.0	35	782.0	36	9.3	6.0	2.8	NM	0.32	
Citicorp	8023.0	4	23792.0	1	116.0	NM	442.0	NM	1.4	NM	1.3	63	0.25	
CoreStates Financial	515.2	-18	1589.7	-17	69.3	13	197.6	17	13.5	9.7	16.0	11	4.54	
First Fidelity Bancorporation	596.1	-12	1839.1	-12	82.3	49	224.1	37	13.8	8.1	14.3	10	3.65	
Fleet Financial Group	1262.2	-1	3605.5	15	76.6	744	197.5	216	6.1	0.7	9.0	20	1.47	
Integra Financial	242.2	18	634.9	6	37.0	102	78.4	53	15.3	8.9	16.1	9	3.92	
KeyCorp	558.5	-12	1661.9	-2	63.5	22	180.3	34	11.4	8.2	15.6	11	3.02	
Mellon Bank	771.0	-2	2268.0	-4	156.0	123	332.0	60	20.2	8.9	19.4	7	6.45	
Meridian Bancorp	261.6	-10	799.9	-14	28.1	8	84.4	2	10.8	9.0	12.7	12	2.42	
Midlantic	307.7	-37	1039.8	-32	17.1	NM	-4.2	NM	5.5	NM	-13.7	NM	-2.36	
MNC Financial	362.1	-20	1156.7	-36	4.5	NM	7.6	-38	1.3	NM	-8.0	NM	-0.93	
Morgan (J. P.)	2718.0	2	7835.0	0	400.0	17	1084.0	28	14.7	12.8	20.9	9	6.79	
PNC Financial	999.7	-14	3060.9	-11	135.1	26	392.5	36	13.5	9.2	13.4	12	4.52	
Republic New York	593.1	-3	1752.3	-9	67.8	17	192.1	14	11.4	9.5	13.6	10	4.28	
Shawmut National	480.8	-14	1540.6	-13	10.0	329	49.7	NM	2.1	0.4	3.9	27	0.59	
State Street Boston	361.4	12	1064.1	4	41.9	54	116.8	5	11.6	8.4	16.5	19	1.91	
UJB Financial	277.9	-13	852.1	-10	16.3	109	36.1	164	5.9	2.4	4.9	20	0.92	
(b) BANKS - MIDWEST GROUP COMPOSITE	9072.6	-4	27542.1	-4	676.6	6	2641.2	17	7.5	6.8	11.7	14	2.85	
Banc One	1306.0	22	4001.1	25	186.2	33	545.8	36	14.3	13.1	16.7	14	3.33	
Boatmen's Bancshares	415.3	-2	1260.0	-2	53.6	37	154.1	33	12.9	9.2	12.9	11	4.84	
Comerica	556.4	-13	1726.2	-11	83.1	20	142.0	-29	14.9	10.8	9.7	16	3.73	
Continental Bank	426.0	-20	1330.0	-24	53.0	NM	161.0	NM	12.4	NM	14.1	5	3.27	
Fifth Third Bancorp	224.0	0	663.1	0	43.2	20	119.8	18	19.3	16.1	16.1	19	2.63	
First Bank System	407.2	-11	1246.2	-9	61.8	23	178.0	31	15.2	11.0	15.7	10	2.55	
First Chicago	1074.5	-9	3234.6	-12	-365.1	NM	-236.6	NM	NM	2.1	-10.6	NM	-4.01	
First of America Bank	467.5	7	1397.2	7	57.7	34	134.4	12	12.3	9.9	13.9	11	3.18	
Firststar	298.3	-5	895.6	-5	43.2	25	121.2	23	14.5	11.0	15.6	11	2.45	
Mercantile Bancorporation	210.0	8	608.6	5	22.1	28	62.4	29	10.5	8.8	12.3	9	4.23	
Michigan National	243.2	-11	749.9	-9	11.6	-37	47.9	52	4.8	6.7	8.6	10	4.42	
National City	680.0	-13	2105.3	-12	89.6	28	256.9	31	13.2	8.9	14.0	11	4.08	
NBD Bancorp	698.8	-5	2106.3	-6	81.9	5	244.3	5	11.7	10.5	14.4	11	2.50	
Northern Trust	303.7	-2	925.6	-3	38.1	22	111.0	18	12.5	10.0	17.9	15	3.83	
Norwest	1179.6	3	3458.9	0	133.9	21	384.2	24	11.4	9.7	17.7	12	3.36	
Society	582.0	-14	1833.5	-11	82.8	39	214.7	27	14.2	8.8	8.5	12	4.64	
(c) BANKS - SOUTH & SOUTHEAST GROUP COMPOSITE	6508.3	-9	19887.1	-9	847.7	105	2290.4	61	13.0	5.8	10.7	15	2.79	
Barnett Banks	736.1	-10	2249.2	-9	58.5	58	156.2	85	7.9	4.5	9.0	16	2.41	
Crestar Financial	266.0	-9	816.3	-11	21.5	825	51.9	96	8.1	0.8	7.1	17	1.71	
First Union	1091.9	2	3264.2	5	147.1	95	380.4	66	13.5	7.0	12.5	11	3.43	
NationsBank	2458.5	-13	7601.0	-13	350.0	332	911.0	104	14.2	2.9	9.1	18	2.61	
Signet Banking	254.1	-18	783.2	-18	28.6	156	77.4	198	11.3	3.6	3.3	44	0.81	
SouthTrust	244.2	3	713.6	3	29.1	23	82.4	24	11.9	10.0	15.2	10	2.31	
SunTrust Banks	764.8	-8	2353.1	-7	104.1	11	307.6	12	13.6	11.2	15.4	12	3.11	
Wachovia	692.6	-12	2106.5	-12	108.8	21	323.6	20	15.7	11.4	10.8	19	3.21	
(d) BANKS - WEST & SOUTHWEST GROUP COMPOSITE	7560.4	9	21449.9	1	678.0	173	1757.0	51	9.0	3.6	7.8	14	2.91	
Bancorp Hawaii	229.7	-10	707.3	-8	31.7	11	94.3	14	13.8	11.2	16.0	10	4.41	
BankAmerica	4235.0	39	11179.0	21	476.0	67	1019.0	21	11.2	9.4	9.7	10	4.21	
First Interstate Bancorp	989.4	-21	3125.6	-21	75.1	NM	200.2	NM	7.6	NM	3.4	34	1.11	
U. S. Bancorp	469.0	-7	1434.9	-5	41.6	-19	142.0	-1	8.9	10.2	13.0	11	1.91	
Union Bank	339.4	-17	1049.0	-16	29.6	489	76.5	0	8.7	1.2	9.2	9	2.61	
Wells Fargo	1298.0	-11	3954.0	-11	24.0	-72	225.0	-11	1.8	5.9	-1.7	NM	-0.91	
4 CHEMICALS														
INDUSTRY COMPOSITE	34602.3	6	103624.8	1	1545.1	5	5099.8	-3	4.5	4.5	9.2	23	1.7	
Air Products & Chemicals (3)	838.8	14	2456.8	11	71.1	22	212.8	13	8.5	7.9	13.5	19	2.41	
American Cyanamid	1198.0	7	4053.9	5	60.9	8	323.2	10	5.1	5.0	14.2	13	4.21	
Arco Chemical	787.0	12	2318.0	11	70.0	100	149.0	24	8.9	5.0	13.1	18	2.21	
Betz Laboratories	182.9	7	534.4	7	21.5	8	62.0	9	11.7	11.7	27.0	21	2.61	
Cabot (3)	383.2	18	1172.2	8	7.2	77	45.6	75	1.9	1.3	14.0	16	3.11	
Crompton & Knowles	131.8	15	380.1	12	10.1	20	32.8	20	7.6	7.3	25.9	24	0.81	
Dexter	231.0	1	726.9	4	9.0	NM	29.5	743	3.9	NM	5.8	32	0.71	
Dow Chemical	4754.0**	6	14252.0	0	145.0	-35	502.0	-51	3.1	5.0	4.3	37	1.41	

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-23	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Du Pont	9748.0***	3	28707.0	-1	475.0	-6	1397.0	-15	4.9	5.3	6.8	28	1.70
Engelhard	586.6**	3	1853.7	0	24.5	15	75.2	15	4.2	3.7	12.5	22	1.46
Ethyl	794.7	28	2138.2	12	72.0	30	187.8	19	9.1	8.9	18.1	14	2.00
Ferro	272.0	5	836.6	6	14.8	29	42.5	NM	5.4	4.4	22.0	16	1.77
Freeport-McMoran	367.3	-11	1242.3	3	128.8	230	163.0	94	35.1	9.5	42.9	17	1.12
Fuller (H. B.) (1)	236.9	11	690.3	9	10.3	26	26.4	40	4.3	3.8	14.4	14	2.52
Georgia Gulf	199.7	-3	582.3	-11	10.9	-30	37.4	-24	5.5	7.6	NM	14	1.32
Goodrich (B. F.)	649.1	0	1911.7	3	4.4	-79	17.6	-33	0.7	3.2	-9.0	NM	-3.84
Grace (W. R.)	1431.0	7	4034.0	-1	-82.1	NM	2.6	-98	NM	4.0	4.4	39	0.91
Great Lakes Chemical	365.8	14	1091.9	11	60.0	53	171.8	46	16.4	12.2	20.9	23	2.98
Hanna (M. A.)	355.7**	15	985.5	17	9.2	NM	21.1	NM	2.6	NM	5.6	21	1.15
Hercules	710.7	-1	2167.9	-2	45.9	33	126.1	107	6.5	4.8	8.6	17	3.46
IMC Fertilizer Group (6)	220.9	-15	768.1	-9	19.7	-7	65.8	-5	8.9	8.2	14.5	11	4.05
Intl. Flavors & Fragrances	292.4	14	872.1	10	49.7	17	155.8	13	17.0	16.6	18.2	22	4.84
International Specialty Products	142.3	11	436.2	8	18.1	40	53.8	32	12.7	10.1	13.2	19	0.64
Loctite	159.6	14	461.3	10	21.6	12	52.9	-2	13.5	13.7	18.8	23	1.95
Lubrizol	364.2	1	1197.6	8	19.0	-34	107.9	18	5.2	8.0	16.4	14	2.02
Lyondell Petrochemical	1335.0	3	3582.0	-18	12.0	-64	9.0	-96	0.9	2.6	125.0	63	0.38
Monsanto	1880.0	3	5898.0	-2	53.0	-50	309.0	65	2.8	5.9	10.0	17	3.02
Morton International (6)	538.1	13	1598.6	10	36.2	6	111.8	3	6.7	7.2	12.0	19	2.99
Nalco Chemical	349.5	10	1016.3	13	34.8	5	104.2	7	10.0	10.5	23.2	17	1.85
NL Industries	232.3	15	694.0	8	-8.1	NM	-18.8	NM	NM	2.3	NM	NM	-0.50
Olin	576.5	5	1823.6	9	5.6	-63	50.0	NM	1.0	2.8	7.4	14	2.76
Praxair	652.0	4	1967.0	6	34.0	48	101.0	29	5.2	3.7	NA	NA	NA
Quantum Chemical	560.0**	-2	1734.0	-9	-33.8	NM	-87.6	NM	NM	NM	NM	NM	-3.56
Rohm & Haas	809.7**	20	2307.4	10	52.2	32	187.9	41	6.4	5.9	14.4	17	3.23
Schulman (A.) (4)	184.3**	21	551.2	5	12.8	-2	34.4	6	6.9	8.5	16.2	18	1.48
Terra Industries	202.5	4	999.3	6	-6.4	NM	35.2	69	NM	NM	14.4	10	0.47
Union Carbide	1241.0	4	3685.0	-1	25.0	NM	108.0	NM	2.0	NM	0.4	NM	0.03
Wellman	212.4	7	625.3	3	12.4	22	38.5	19	5.8	5.1	11.2	13	1.57
Witco	425.2	1	1272.4	3	18.9	-11	55.8	3	4.4	5.0	11.6	14	3.26

CONGLOMERATES

INDUSTRY COMPOSITE	39425.5	6	115778.3	4	1677.4	442	5103.0	55	4.3	0.8	14.5	17	2.79
Allied-Signal	2936.0	2	8990.0	2	140.0	NM	412.0	NM	4.8	NM	15.9	15	3.76
Coltec Industries	330.6	-2	1028.2	0	19.9	241	40.5	561	6.0	1.7	NM	NA	NA
Dart Group (11)	311.7	2	937.2	8	1.1	-57	7.4	261	0.3	0.8	2.8	16	4.30
Dial	853.6	-1	2549.4	-4	35.0	32	84.5	22	4.1	3.1	4.6	73	0.52
Figgie International	278.4	-2	863.0	-5	4.5	-11	18.0	1	1.6	1.8	7.8	10	1.73
Fuqua Industries	307.6	32	872.1	28	4.7	NM	5.5	NM	1.5	NM	-9.1	NM	-1.29
General Cinema (2)	992.1**	2	2805.8	1	71.4	46	96.6	NM	7.2	5.0	-19.7	NM	-2.40
General Electric	15137.0	6	43692.0	4	1110.0	7	3384.0	7	7.3	7.3	20.9	14	5.41
ITT	5500.0	12	15945.0	6	113.0	-37	357.0	-39	2.1	3.6	6.7	15	4.22
LTV	944.2	0	2878.7	4	-32.6	NM	-119.1	NM	NM	6.3	NM	NM	-1.18
National Intergroup (9)	1201.1	45	3144.2	27	3.6	NM	10.4	NM	0.3	NM	2.2	29	0.41
Ogden	458.6	11	1303.1	12	17.2	5	45.6	8	3.8	4.0	12.6	13	1.41
Pall (5)	204.2	10	547.4	3	36.8	22	82.9	16	18.0	16.3	16.5	29	1.03
Penn Central	448.8	6	1330.0	7	14.1	-32	41.8	-36	3.1	4.9	2.8	22	0.84
Premark International	712.9	7	2122.8	5	-94.7	NM	-46.2	NM	NM	2.7	0.2	NM	0.16
Teledyne	708.6	-6	2171.9	-9	16.3	NM	35.5	NM	2.3	NM	14.2	16	1.14
Tenneco	3180.0	2	9825.0	0	46.0	NM	186.0	NM	1.4	NM	5.3	35	1.04
Textron	2030.0	7	6185.1	6	86.8	15	246.9	14	4.3	4.0	10.9	10	3.74
TRW	2020.0	7	6205.0	7	49.0	53	150.0	65	2.4	1.7	-4.6	NM	-1.39
Valhi	207.5	-3	612.7	6	0.2	NM	-2.0	NM	0.1	NM	-1.3	NM	-0.04
Whitman	662.6	2	1769.6	2	35.0	0	65.7	15	5.3	5.4	18.6	15	0.83

CONSUMER PRODUCTS

INDUSTRY COMPOSITE	65004.3	11	186149.6	8	4515.5	18	12645.5	20	6.9	6.5	21.6	20	1.97
APPAREL GROUP COMPOSITE	6883.2	14	18452.1	12	287.8	-27	894.1	0	4.2	6.5	15.3	21	1.71
Brown Group (11)	415.3	0	1286.1	1	5.5	19	-15.1	NM	1.3	1.1	-2.8	NM	-0.47
Fruit of the Loom	451.2	15	1408.6	16	46.4	71	139.5	76	10.3	6.9	21.7	20	2.26
Hartmarx (1)	264.1	-7	842.4	-6	-213.6	NM	-225.9	NM	NM	NM	-87.0	NM	-9.48
Jones Apparel Group	138.7	26	344.2	33	17.4	26	34.9	38	12.5	12.6	37.2	23	1.53
Kellwood (8)	250.9	14	705.7	15	8.4	25	18.7	46	3.4	3.1	9.2	12	1.93
LeA. Gear (1)	136.4	-20	350.7	-29	-11.4	NM	-42.1	NM	NM	NM	-60.3	NM	-3.52
Leslie Fay	239.3	-4	606.1	-9	11.4	-39	23.7	-18	4.7	7.5	10.6	10	1.27
Liz Claiborne	618.3	11	1647.9	12	64.5	-2	166.9	0	10.4	11.8	23.5	15	2.64
Nike (7)	1099.9	16	2814.5	14	122.6	7	275.8	13	11.1	12.1	25.3	18	4.40
Oxford Industries (7)	134.3	9	396.4	10	3.1	18	9.3	58	2.3	2.1	12.1	12	1.48
Phillips-Van Heusen (11)	239.5	17	679.9	13	6.5	8	14.8	44	2.7	2.9	15.2	22	1.22
Reebok International	863.2	13	2362.6	10	74.4	12	182.5	-1	8.6	8.7	25.2	11	2.49
Russell	259.3	14	642.2	17	24.0	15	51.9	70	9.2	9.2	14.7	16	1.89
Santal	127.6	5	310.6	8	6.1	47	6.1	NM	4.8	3.4	NM	NM	-1.49

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				RETURN ON COMMON EQUITY 12 MONTHS ENDING 3Q92	PRICE EARNINGS RATIO 10Q3	12 MONTHS EARNING PER SHARE
	3RD QUARTER 1992	THIRD QUARTER 1991	4 MONTHS 1992	CHANGE FROM 92	3RD QUARTER 1992	CHANGE FROM 91	9 MONTHS 1992	CHANGE FROM 91	3RD QUARTER 1992	3RD QUARTER 1991	9 MONTHS 1992	9 MONTHS 1991			
	\$ MIL.	\$ MIL.	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	%	%	%	%			
Stride Rite (1)	168.4	2	478.4	4	20.7	10	59.5	10	12.3	11.4	26.2	14	1.38		
Tultex	181.1**	51	340.5	55	9.9	36	5.5	NM	5.5	6.1	8.2	20	0.42		
VF	1125.3	35	2795.4	33	76.6	42	166.5	47	6.8	6.4	21.9	14	3.62		
Warnaco Group	170.3	11	440.0	9	15.4	NM	21.7	NM	9.1	NM	16.2	NA	NA		
(b) APPLIANCES & HOME FURNISHINGS															
GROUP COMPOSITE	7334.8	9	21910.1	9	142.4	-18	478.1	20	1.9	2.6	7.8	30	0.75		
Armstrong World Industries	659.6	4	1949.7	5	-77.2	NM	-35.7	NM	NM	3.6	-9.1	NM	-1.55		
Best Buy (10)	285.4	47	871.8	52	2.6	48	9.0	55	0.9	0.9	7.1	27	1.08		
Circuit City Stores (10)	721.3	14	2269.4	37	21.5	24	76.9	46	3.0	2.7	18.6	21	1.80		
Heilig-Meyers (10)	152.5**	28	450.8	26	7.9	33	25.3	46	5.2	5.0	11.3	23	1.62		
Interco (10)	380.6	7	1117.7	6	149.5	NM	130.0	NM	39.3	NM	NM	3	3.14		
InterTan (5)	166.3	13	499.9	8	-7.9	NM	-56.9	NM	NM	NM	-25.8	NM	-5.81		
Kimball International (5)	171.2	24	501.7	24	7.3	-20	28.6	32	4.3	6.6	11.5	14	1.74		
La-Z-Boy Chair (8)	140.0	8	464.2	4	2.8	-6	16.4	-6	2.0	2.3	10.1	15	1.38		
Leggett & Platt	304.3	9	873.0	6	17.8	48	46.5	59	5.8	4.3	14.2	17	1.51		
Masco	899.0	12	2617.0	12	50.8	64	140.1	93	5.7	3.8	6.1	35	0.73		
Maytag	735.5	1	2258.8	1	-50.2	NM	-6.6	NM	NM	3.3	1.4	NM	0.14		
Pier 1 Imports (10)	166.4	3	467.6	4	7.5	38	20.1	34	4.5	3.3	13.4	14	0.67		
Sunbeam-Oster	200.1	11	724.4	9	11.9	40	44.6	27	5.9	4.7	16.0	20	0.75		
Toro (5)	135.3	-27	518.7	-11	-15.0	NM	-17.6	NM	NM	NM	-16.0	NM	-1.98		
Whirlpool	1912.0	14	5467.0	8	55.0	15	143.0	10	2.9	2.9	11.7	15	2.61		
Zenith Electronics	313.3	-9	858.5	-7	-41.8	NM	-85.6	NM	NM	NM	-32.0	NM	-2.90		
(c) BEVERAGES															
GROUP COMPOSITE	14087.4	14	39210.5	13	1323.3	25	3526.5	18	9.4	8.6	23.7	25	1.64		
Anheuser-Busch	3091.6	5	8666.1	4	318.0	9	859.2	10	10.3	10.0	21.7	15	3.54		
Brown-Forman (8)	326.4	26	946.3	18	35.2	27	101.1	9	10.8	10.7	21.1	15	5.56		
Coca-Cola	3507.5	11	9829.8	13	540.6	18	1504.7	19	15.4	14.4	42.9	28	1.41		
Coca-Cola Bottling Consolidated	170.9	39	492.9	41	1.8	197	3.3	97	1.0	0.5	0.5	NM	0.08		
Coca-Cola Enterprises	1381.0	33	3848.0	29	2.0	NM	8.0	-81	0.1	NM	-8.1	NM	-1.01		
PepsiCo	5640.0	16	15427.5	18	425.7	49	1050.2	30	7.5	5.8	20.3	24	1.65		
(d) PERSONAL CARE															
GROUP COMPOSITE	14041.7	11	40297.1	10	906.4	34	2467.4	21	6.5	5.4	24.0	22	2.42		
Alberto-Culver (3)	291.2	18	844.7	24	9.9	12	29.2	32	3.4	3.6	13.8	18	1.36		
Avon Products	938.8	9	2635.3	7	53.9	13	71.7	-39	5.7	5.5	74.0	24	2.36		
Block Drug (9)	159.3	12	457.6	11	15.8	9	46.6	9	9.9	10.2	13.3	14	3.29		
Church & Dwight	133.0**	5	377.0	8	9.4	21	21.2	6	7.1	6.3	18.0	23	1.36		
Clorox (5)	242.9	6	1388.8	5	44.6	4	94.8	163	10.1	10.3	14.7	20	2.20		
Colgate-Palmolive	1835.8	22	5235.9	17	128.9	NM	367.1	866	7.0	NM	20.1	21	2.84		
Ecolab	260.7	7	741.9	10	20.2	5	45.7	9	7.7	7.9	18.8	18	1.90		
Gillette	1249.2	10	3654.9	9	128.2	23	378.1	21	10.3	9.1	38.2	26	2.23		
Helene Curtis Industries (10)	322.1	18	861.5	15	8.2	17	17.2	45	2.5	2.6	12.4	18	2.18		
NCH (8)	175.0	4	516.1	2	11.1	4	29.1	-7	6.3	6.3	13.9	14	4.82		
Procter & Gamble (6)	7879.0	9	22529.0	9	431.0	-20	244.0	-2	5.5	7.4	23.6	21	2.46		
Stanhome	182.2	6	535.8	7	11.7	-1	31.3	11	6.4	6.9	19.3	14	2.39		
Tambrands	174.5	5	518.8	7	33.6	144	91.3	22	19.2	9.1	51.8	27	2.38		
(e) TOBACCO															
GROUP COMPOSITE	22657.1	9	66279.7	4	1855.5	23	5279.4	26	8.2	7.3	24.5	15	2.44		
American Brands	208.4	8	655.7	6	202.7	8	650.5	10	9.1	9.0	19.4	10	4.18		
Culbro	292.2**	0	853.5	5	13	NM	2.8	989	0.4	NM	4.8	13	1.32		
Philip Morris	15005.0*	9	44211.0	3	1291.0	16	3743.0	18	8.6	8.1	34.2	15	4.94		
RJR Nabisco Holdings	4011.0	7	11647.0	6	252.0	105	605.0	192	6.3	3.3	9.2	13	0.60		
Universal (6)	826.6**	19	2246.0	11	23.8	18	45.5	10	2.9	2.9	24.7	11	2.26		
UST	273.0*	10	771.7	15	84.7	5	232.7	17	3.0	29.7	62.4	24	1.35		
7 CONTAINERS & PACKAGING															
INDUSTRY COMPOSITE	6388.4	4	18485.4	4	195.5	10	557.3	13	3.1	2.9	7.5	26	0.98		
(a) GLASS, METAL, & PLASTIC															
GROUP COMPOSITE	2701.5	1	7751.6	3	116.0	40	297.4	60	4.3	3.1	12.8	21	1.10		
Ball	566.5	-2	1653.0	8	21.0	-1	51.4	-1	3.7	3.7	10.6	15	2.00		
Constar International	161.2	18	479.2	14	5.9	113	17.3	57	3.7	2.0	14.1	22	1.50		
Crown Cork & Seal	1020.9	-3	2878.4	-2	50.5	24	125.6	23	4.9	3.9	13.1	21	1.74		
Owens-Illinois	952.9	4	2741.0	3	38.6	111	103.1	393	4.1	2.0	14.1	34	0.29		
(b) PAPER															
GROUP COMPOSITE	3686.9	7	10733.8	5	79.5	-16	259.9	-15	2.2	2.7	5.3	31	0.90		
Bemis	292.6	3	879.6	3	14.5	6	40.8	16	5.0	4.8	17.0	20	1.14		
Federal Paper Board	337.9	-1	1006.3	-2	24.1	0	66.5	-13	7.1	7.1	7.0	16	1.51		
Greif Bros. (2)	127.9	21	378.7	23	5.6	1	19.4	98	4.4	5.3	11.2	14	2.61		
Longview Fibre (2)	177.9	10	503.4	7	8.7	92	22.3	141	4.9	2.8	7.7	26	0.51		
Nashua	151.2	9	407.3	1	3.3	30	3.8	13	2.2	1.8	0.8	NM	0.11		
Sonoco Products	462.6	10	1354.0	8	27.8	11	80.1	14	6.0	6.0	17.6	19	2.47		
Stone Container	1464.6	7	4189.9	4	-43.7	NM	-94.7	NM	NM	NM	-9.8	NM	-1.91		
Temple-Inland	671.2	5	2014.6	8	39.2	23	121.7	6	5.8	5.0	9.1	18	2.61		

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE EARNINGS RATIO 10-23	12 MONTH EARNINGS PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	78294.8	10	238736.9	10	987.8	-29	4643.6	-14	1.3	2.0	10.2	28	1.43
AutoZone (4)	349.7	11	786.5	21	25.5	21	50.7	39	7.3	6.7	24.8	37	0.87
Baker (J.) (11)	133.5	5	380.3	15	3.2	58	7.2	130	2.4	1.6	9.1	19	0.93
Walden (11)	492.0	13	1541.3	8	4.9	96	29.2	361	1.0	0.6	15.0	14	1.75
Warming Shoppes (11)	289.6	14	847.7	15	21.7	32	57.5	39	7.5	6.4	17.4	28	1.29
Consolidated Stores (11)	203.2	15	646.0	18	5.1	136	25.4	205	2.5	1.2	15.2	27	0.59
Costco Wholesale (4)	2081.9**	21	5098.0	24	39.2	21	92.8	31	1.9	1.9	14.9	32	0.93
Dayton Hudson (11)	3967.0**	11	12935.0	10	42.0	5	269.0	-13	1.1	1.1	12.4	19	3.91
illard Department Stores (11)	1016.3**	12	3453.2	12	36.5	2	174.9	5	3.6	3.9	12.8	21	1.91
Dollar General (11)	216.9	25	648.5	24	6.7	79	22.9	65	3.1	2.2	16.9	25	1.01
Edison Brothers Stores (11)	348.7	11	1116.3	8	12.7	11	51.4	3	3.6	3.6	15.8	15	2.92
Family Dollar Stores (4)	297.2	16	894.8	17	10.9	33	44.1	36	3.7	3.2	21.1	19	1.00
Federated Department Stores (11)	1457.2**	-3	5163.3	-3	-15.8	NM	-970.9	NM	NM	NM	-53.1	NA	NA
Fingerhut (11)	353.2	14	1021.7	10	5.6	-34	26.4	-1	1.6	2.7	13.1	13	2.08
Gap (11)	614.1	17	2006.5	22	37.7	10	166.9	27	6.1	6.5	30.9	19	1.67
Genesco (11)	130.0	10	368.2	4	1.6	NM	2.1	NM	1.2	NM	2.3	53	0.14
Grossman's (11)	245.8	7	649.1	4	4.7	20	5.6	3	1.9	1.7	2.9	22	0.17
Hecht's (11)	549.7	20	1347.2	16	15.5	12	-37.1	NM	2.8	3.0	-6.5	NM	-0.73
Hills Department Stores (11)	358.9	-2	1267.4	-7	-7.4	NM	3.0	NM	NM	NM	NM	1	0.59
Home Depot (11)	1856.4	37	4794.7	35	101.9	42	249.0	51	5.5	5.3	14.7	60	0.94
Home Shopping Network (4)	261.3	2	806.1	2	7.4	NM	24.3	NM	2.8	NM	18.8	15	0.42
House of Fabrics (11)	126.6	29	406.2	29	-0.4	NM	10.6	-7	NM	1.6	9.6	9	1.15
Kmart (11)	204.2	-2	641.2	-2	-0.6	NM	-1.5	NM	NM	NM	-1.1	NM	-0.08
Kohl's (4)	9234.0**	9	28278.0	8	168.0	3	763.0	14	1.8	1.9	12.9	13	1.97
Kohl's (4)	247.0	22	741.8	15	5.6	534	10.7	-1	2.2	0.4	13.5	42	0.60
Kroger's End (11)	136.7	13	548.1	15	2.5	126	27.1	54	1.8	0.9	27.1	17	1.78
Kroger's (11)	1489.4**	8	4961.2	13	80.1	1	331.9	10	5.4	5.8	20.4	22	1.11
Kroger's (11)	1061.6	23	2654.5	24	29.7	18	10.2	-76	2.8	2.9	3.3	62	0.32
Kroger's Department Stores (11)	2486.0**	5	8236.0	3	393.0	379	740.0	80	15.8	3.4	29.4	10	6.57
Kroger's (11)	2390.6	3	6945.0	5	56.1	1	121.2	7	2.3	2.4	19.6	15	3.26
Kroger's (11)	601.8**	11	1985.3	7	5.4	-70	54.7	-37	0.9	3.3	6.9	13	2.32
Kroger's (11)	181.6	16	603.1	13	6.4	-8	11.0	-63	3.5	4.4	9.8	30	0.38
Kroger's (11)	641.7	4	2182.5	6	14.9	29	46.6	33	2.3	1.9	12.7	14	1.99
Kroger's (11)	415.8**	7	1374.2	4	-6.8	NM	13.6	NM	NM	NM	NM	NM	-0.21
Kroger's (11)	951.6	5	2593.5	7	41.7	-16	104.1	-15	4.4	5.5	12.5	21	1.51
Kroger's (11)	165.0	-5	466.5	-9	1.8	NM	3.9	NM	1.1	NM	40.6	4	0.78
Kroger's (11)	4052.0	9	13780.0	6	80.0	158	253.0	-20	2.0	0.8	9.3	26	2.87
Kroger's (11)	309.2	18	828.2	17	16.7	47	37.1	47	5.4	4.3	9.9	32	0.82
Kroger's (11)	355.0	4	1065.7	3	1.5	-62	15.1	23	0.4	1.2	1.7	98	0.23
Kroger's (11)	1729.7**	8	4993.8	10	29.7	-13	78.8	-10	1.7	2.1	16.1	14	2.61
Kroger's (11)	221.3**	11	736.1	15	8.7	152	30.1	117	3.9	1.7	10.1	21	1.00
Kroger's (11)	300.0	-9	1011.9	-9	-4.8	NM	-25.3	NM	NM	NM	-20.4	NM	-1.49
Kroger's (11)	253.9	10	756.0	11	9.7	11	26.6	29	3.8	3.8	16.7	14	1.18
Kroger's (11)	14486.1**	1	42267.5	2	-833.7	NM	-166.1	NM	NM	1.6	2.3	43	0.97
Kroger's (11)	698.2	6	2144.4	7	-1.7	NM	-5.1	NM	NM	NM	80.8	13	0.83
Kroger's (11)	354.2	4	1277.7	7	4.4	18	36.5	5	1.2	1.1	15.5	10	1.59
Kroger's (11)	457.6	15	1349.6	7	1.9	20	3.0	-23	0.4	0.4	3.6	39	0.31
Kroger's (11)	214.4**	1	757.6	2	-1.6	NM	15.8	48	NM	NM	5.8	15	1.45
Kroger's (11)	753.6	16	2224.2	13	19.0	38	48.2	10	2.5	2.1	27.1	24	1.07
Kroger's (11)	1249.1	18	5282.3	14	32.7	40	322.6	14	2.6	2.2	14.0	30	1.20
Kroger's (11)	640.3	-5	1982.3	-4	-7.4	NM	8.0	NM	NM	0.9	3.4	31	0.37
Kroger's (11)	155.1**	6	503.2	11	4.4	29	23.1	20	2.8	2.3	21.8	20	0.98
Kroger's (11)	387.0**	14	1272.9	12	5.3	35	39.3	16	1.4	1.2	35.5	10	2.63
Kroger's (11)	863.5	17	2336.1	18	12.8	35	29.6	71	1.5	1.3	8.6	19	1.09
Kroger's (11)	13028.4	26	38316.6	28	420.4	22	1409.8	24	3.2	3.3	23.0	40	1.53
Kroger's (11)	2230.0**	0	7462.0	1	33.0	57	-78.0	NM	1.5	0.9	-1.9	NM	-0.29
ELECTRICAL & ELECTRONICS													
INDUSTRY COMPOSITE	29351.0	8	86038.1	6	1438.8	NM	3615.7	183	4.9	NM	10.4	18	1.92
ELECTRICAL PRODUCTS													
GROUP COMPOSITE	6501.1	-2	19295.9	1	194.3	NM	707.9	NM	3.0	NM	9.5	17	1.48
Cooper Industries	1484.9**	-2	4522.4	-2	94.2	-5	280.6	3	6.3	6.6	10.1	17	3.07
Hubbell	202.3	5	585.5	3	22.7	5	70.7	4	11.2	11.3	17.3	17	2.95
Intertek (6)	335.8	14	988.0	11	6.8	2	22.7	-18	2.0	2.3	14.7	11	1.21
National Service Industries (4)	426.2	5	1232.2	3	20.9	31	56.5	636	4.9	3.9	10.9	17	1.50
Raychem (6)	348.5	15	1012.2	7	3.8	-49	-16.6	NM	1.1	2.4	-2.8	NM	-0.52
Reliance Electric	398.0	8	1154.0	3	15.0	200	34.0	26	3.8	1.4	6.9	28	0.57
Thomas & Betts	266.4	96	790.6	85	16.8	57	32.0	-14	6.3	7.9	9.6	29	2.36
Westinghouse Electric	3039.0	-11	9011.0	-4	14.0	NM	228.0	NM	0.5	NM	9.8	11	1.13

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 9-30	12 MONTH EARN- ING PER SHARE
	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
(b) ELECTRONICS													
GROUP COMPOSITE	12909.3	10	38043.0	6	597.6	103	1041.8	-15	4.6	2.5	8.1	19	2.03
E-Systems	556.5	12	1540.0	7	31.3	11	88.3	11	5.6	5.7	14.9	10	3.60
General Instrument	284.3	20	776.6	12	2.3	NM	-24.6	NM	0.8	NM	NA	NA	NA
GM Hughes Electronics	2839.6	4	8716.7	5	155.2	306	-248.2	NM	5.5	1.4	0.1	NM	0.03
Harris (6)	727.6	6	2290.0	2	20.7	63	76.3	8	2.9	1.9	8.9	14	2.44
Liton Industries (5)	1444.3	5	4331.7	9	45.0	NM	132.9	456	3.1	NM	13.3	10	4.22
Loral (9)	738.9	6	2214.1	3	40.6	39	110.1	34	5.5	4.2	11.4	10	4.13
Motorola	3396.0	24	9592.0	16	129.0	39	402.0	23	3.8	3.4	10.5	24	3.96
Raytheon	2214.0	-1	6663.3	-3	156.1	5	465.2	7	7.1	6.6	17.4	9	4.65
SCI Systems (6)	349.5	46	934.8	21	4.2	142	8.8	697	1.2	0.7	3.3	45	0.30
Varian Associates (3)	358.5	6	983.8	-7	13.1	0	31.0	-31	3.7	3.9	9.2	17	2.04
(c) INSTRUMENTS													
GROUP COMPOSITE	4297.7	10	12402.2	6	284.5	67	647.0	50	6.6	4.4	16.8	12	2.71
Ametek	186.0	9	578.1	9	10.7	13	33.8	23	5.8	5.6	19.9	14	1.01
Beckman Instruments	220.5	6	658.6	6	11.4	11	31.4	13	5.2	5.0	11.1	14	1.46
Honeywell	1550.0	4	4517.4	1	176.0	123	377.9	65	11.4	5.3	25.0	9	6.90
Johnson Controls (3)	1450.6	21	3941.1	16	41.7	33	94.6	34	2.9	2.6	12.9	15	2.86
Millipore	198.4	11	583.8	5	13.3	22	34.0	-17	6.7	6.1	10.7	18	1.86
Perkin-Elmer (5)	256.1	9	712.8	6	19.6	55	49.7	NM	7.6	5.4	19.2	18	1.72
Tektronix (7)	304.6	6	1010.1	0	6.2	-36	8.2	-78	2.0	3.3	3.7	38	0.55
Teradyne	131.5	1	400.2	6	5.7	-19	17.4	60	4.4	5.4	7.6	19	0.75
(d) SEMICONDUCTORS													
GROUP COMPOSITE	5643.0	14	16297.2	10	362.5	1285	1219.0	163	6.4	0.5	12.6	21	1.86
Advanced Micro Devices	356.7	23	1114.3	30	49.1	188	175.4	355	13.8	5.9	29.6	5	3.01
AMP	847.1	15	2492.6	8	77.8	26	220.0	12	9.2	8.4	14.7	23	2.68
Analog Devices (2)	144.3	11	418.5	3	5.0	743	7.9	-27	3.4	0.5	1.4	NM	0.10
Intel	1426.2	20	3987.2	12	240.8	19	638.0	1	16.9	17.0	17.6	17	3.88
LSI Logic	154.0	-11	456.3	-14	-111.4	NM	-116.9	NM	NM	0.5	-61.6	NM	-2.61
Micron Technology (4)	135.2	9	394.5	14	2.9	-70	6.0	-58	2.1	7.7	1.3	NM	0.11
Molex (6)	215.2	15	615.1	12	18.4	24	54.6	17	8.6	8.0	10.3	25	1.41
National Semiconductor (7)	472.4	15	1365.7	10	21.9	NM	63.9	NM	4.6	NM	10.7	23	0.56
Texas Instruments	1892.0	11	5453.0	8	58.0	NM	170.0	NM	3.1	NM	2.5	98	0.50
10 FOOD													
INDUSTRY COMPOSITE	70434.5	2	211369.8	2	1365.1	-32	4799.4	-15	1.9	2.9	18.1	22	1.56
(a) FOOD DISTRIBUTION													
GROUP COMPOSITE	9337.3	2	29749.0	4	110.9	-4	366.8	4	1.2	1.3	13.5	18	1.38
Fleming	2934.8	-1	9816.9	0	21.8	-18	84.6	0	0.7	0.9	7.1	14	1.96
Richfood Holdings (8)	245.6	4	835.8	7	3.4	35	12.1	45	1.4	1.1	21.1	12	1.40
Rykoff-Sexton (8)	371.5	1	1139.4	5	-0.1	NM	4.2	-54	NM	0.9	4.9	19	0.80
Smart & Final	238.9	15	573.3	13	5.1	25	11.3	NM	2.1	2.0	13.2	23	1.03
Super Food Services (4)	362.4**	-38	1132.7	-19	2.2	-50	-7.9	NM	0.6	0.8	-4.5	NM	-0.51
Super Rite (10)	298.7	19	917.7	21	1.5	-25	6.0	652	0.5	0.8	-7.5	NM	-0.21
Supervalu (10)	2469.6	4	8382.6	6	32.2	5	125.4	2	1.3	1.3	20.0	10	2.86
Sysco (6)	2415.8	11	6950.6	11	44.9	7	131.3	11	1.9	1.9	16.6	28	0.94
(b) FOOD PROCESSING													
GROUP COMPOSITE	30679.9	6	90689.0	5	932.0	-37	3834.6	-6	3.0	5.1	19.5	22	1.89
American Maize-Products	146.0	1	418.2	4	5.2	7	10.9	16	3.6	3.4	8.6	10	2.22
Borden	1856.2	-1	5318.0	-1	-376.8	NM	-239.0	NM	NM	5.3	-11.0	NM	-1.37
Campbell Soup (5)	1433.4	6	4716.0	2	109.2	29	361.3	22	7.6	6.3	24.2	22	1.90
ConAgra (7)	5516.0	4	15939.1	4	71.9	5	263.9	9	1.3	1.3	15.4	20	1.50
CPC International	1601.5	8	4808.5	4	117.4	10	318.8	8	7.3	7.2	27.4	17	2.77
Curtice-Burns Food (6)	215.7	0	654.4	-1	1.3	22	3.9	NM	0.6	0.5	6.1	18	0.79
Dean Foods (7)	543.2	2	1750.1	8	15.4	-9	44.6	-21	2.8	3.2	13.7	18	1.50
Dole Food	956.9	7	2611.9	4	21.3	-18	88.1	-16	2.2	2.9	10.7	14	1.96
Daskocil	192.3	-4	552.6	-10	2.7	NM	1.8	NM	1.4	NM	6.5	13	0.91
Flowers Industries (6)	210.7	10	692.3	9	6.4	75	29.0	56	3.1	1.9	13.0	19	0.91
General Mills (7)	2019.6	5	5888.4	7	159.6	12	394.8	8	7.9	7.4	38.8	21	3.16
Gerber Products (9)	344.7	5	999.5	7	34.6	-3	112.8	23	10.0	10.9	26.1	20	1.71
Heinz (H. J.) (8)	1564.4	4	5053.7	2	143.8	-43	404.8	-25	9.2	17.0	22.3	20	2.06
Hershey Foods	827.5	8	2250.3	11	66.9	4	160.3	11	8.1	8.4	17.1	18	2.61
Hormel (Geo. A.) (2)	671.2	-1	1972.0	-5	16.1	26	53.2	7	2.4	1.9	14.7	17	1.11
IBP	2872.5	8	8349.2	6	13.3	44	45.2	NM	0.5	0.3	11.1	15	1.20
International Multifoods (10)	542.4	0	1641.7	0	9.2	6	24.6	6	1.7	1.6	12.6	14	2.01
Interstate Bakeries (7)	273.7	4	890.9	4	9.2	126	23.2	NM	3.4	1.5	16.4	12	1.51
Kellogg	1670.7	11	4769.8	10	204.2	18	568.5	17	12.2	11.4	30.2	25	2.81
McCormick (1)	360.3	5	1019.2	2	23.9	15	60.2	18	6.6	6.1	21.3	25	1.11
Pet (6)	409.2	-4	1282.4	-1	20.9	2	67.9	14	5.1	4.8	18.7	18	0.91
Pioneer Hi-Bred International (4)	204.5	-2	1207.3	12	-6.1	NM	185.5	31	NM	NM	18.5	16	1.61
Quaker Oats (6)	1494.2	10	4372.0	3	62.5	47	223.0	5	4.2	3.1	35.1	19	3.51
Sara Lee (6)	3583.3	15	10125.7	12	142.0	-46	450.2	-14	4.0	8.5	19.7	23	2.51
Seaboard	243.0	24	707.8	23	5.5	54	18.4	44	2.3	1.8	10.7	9	18.01

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-23	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1992	CHANGE FROM 1991	9 MONTHS 1992	CHANGE FROM 1991	3RD QUARTER 1992	CHANGE FROM 1991	9 MONTHS 1992	CHANGE FROM 1991	3RD QUARTER 1992	3RD QUARTER 1991			
	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	%	%			
Smithfield Foods (8)	228.3	-5	777.9	-4	1.5	-52	15.0	-39	0.7	1.3	17.3	15	1.26
Thorn Apple Valley (7)	221.2	-7	533.0	-12	5.2	-10	14.0	-9	2.4	2.5	28.1	6	5.41
WLR Foods (6)	140.7	14	401.9	9	4.2	70	6.7	10	3.0	2.0	7.5	24	0.71
Wrigley (Wm.) Jr.	336.6	16	985.2	13	41.3	16	123.2	17	12.3	12.2	28.3	27	1.25
FOOD RETAILING													
GROUP COMPOSITE	30417.4	-1	90931.6	-1	322.2	-23	598.0	-52	1.1	1.4	14.7	22	0.94
Albertson's (11)	2604.2	19	7099.7	10	66.0	12	179.8	-6	2.5	2.7	19.2	25	1.81
American Stores (11)	4702.5	-11	14843.2	-9	50.6	-57	128.7	-46	1.1	2.2	10.1	18	2.27
Arundo's (6)	641.7	6	1987.6	4	12.7	-7	36.5	-23	2.0	2.2	13.1	16	0.68
Casey's General Stores (8)	178.6*	7	466.7	4	4.1	15	8.2	15	2.3	2.1	12.1	16	1.08
Fairy Mart Convenience Stores (11)	151.1*	-2	418.3	-3	1.9	-22	2.3	3	1.2	1.5	9.5	8	0.70
Felchamps (6)	255.4	9	737.1	5	3.0	581	8.2	-19	1.2	0.2	7.4	17	1.17
Flagle Food Centers (11)	271.8	-5	811.4	-5	1.3	-43	6.4	NM	0.5	0.8	12.2	9	0.75
Food Lion	1687.5	12	4927.9	12	48.5	-5	150.8	4	2.9	3.4	22.6	23	0.44
Foodarama Supermarkets (2)	176.5	-4	525.7	1	0.4	-2	1.2	136	0.2	0.2	0.4	NM	0.12
Giant Food (10)	778.6	0	2733.3	4	12.0	-37	55.7	-37	1.5	2.4	11.1	15	1.18
Great Atlantic & Pacific Tea (10)	2431.8	-8	8488.0	-6	7.6	-47	-42.7	NM	0.3	0.5	-3.5	NM	-1.02
Kroger	6333.1	2	16443.8	1	6.9	-59	32.4	-46	0.1	0.3	NM	14	0.82
Kenn Traffic (11)	699.4**	-1	2089.1	0	1.0	NM	1.3	NM	0.1	NM	-8.6	NM	-0.04
Luddick (3)	392.7	5	1180.4	6	7.7	6	23.1	9	2.0	1.9	12.2	13	1.30
Lafeway	3455.5	-2	10302.1	-1	20.0	-62	76.2	-34	0.6	1.5	16.5	37	0.31
Lafeway Food Town (4)	140.1	-6	419.3	-4	0.5	-59	1.5	23	0.3	0.8	6.4	10	1.02
Smith's Food & Drug Centers	653.4	20	1963.0	21	13.8	13	40.5	21	2.1	2.2	10.3	21	1.74
Top & Shop (11)	775.6	3	3103.6	-1	13.6	32	60.5	27	1.8	1.4	47.9	19	0.76
Supermarkets General Holding (11)	1178.9	-22	3638.5	-19	-1.6	NM	-396.7	NM	NM	NM	NM	NA	NA
Village Super Market (5)	196.8	4	555.7	4	0.9	17	0.3	-79	0.5	0.4	1.0	37	0.17
Weis Markets	320.1	1	961.0	0	17.9	0	54.6	-6	5.6	5.6	11.6	14	1.75
Winn-Dixie Stores (6)	2392.1	3	7236.3	3	33.4	25	169.3	36	1.4	1.1	23.4	23	2.91
FUEL													
INDUSTRY COMPOSITE	107252.0	7	304978.1	-1	3310.8	15	8602.4	-31	3.1	2.9	7.6	26	1.80
COAL													
GROUP COMPOSITE	1209.2	11	3406.2	8	30.3	2	64.4	-9	2.5	2.7	0.6	NM	0.11
Ashland Coal	160.7	43	416.1	25	8.0	-16	23.3	-14	5.0	8.4	12.7	13	2.03
Hacco Industries	388.5	11	1050.9	7	9.6	143	12.1	17	2.5	1.1	6.3	18	2.50
Hittston	533.6**	11	1529.1	9	14.7	-29	33.5	-14	2.8	4.3	-10.4	NM	-0.92
Westmoreland Coal	126.4	-15	410.0	-4	-2.0	NM	-4.5	NM	NM	NM	-9.3	NM	-1.61
OIL & GAS													
GROUP COMPOSITE	101185.6	8	287093.3	-1	3002.6	18	7839.4	-33	3.0	2.7	7.5	26	1.85
Amerada Hess	1420.8**	7	4351.4	-9	8.7	NM	-10.4	NM	0.6	NM	-1.7	NM	-0.76
Amoco	6483.0	5	18764.0	-1	466.0	61	222.0	-78	7.2	4.7	2.8	69	0.76
Ashland Oil (3)	2672.9	3	7247.7	6	-103.0	NM	-97.8	NM	NM	2.4	-4.6	NM	-1.18
Atlantic Richfield	4815.0*	10	13663.0	3	332.0	NM	821.0	86	6.9	NM	15.6	18	6.76
Burlington Resources	287.5	16	814.4	9	37.1	26	102.7	31	12.9	11.9	6.3	36	1.15
Chevron	11100.0**	11	31400.0	3	378.0	21	1032.0	-18	3.4	3.1	7.4	23	3.13
Coastal	2594.0	18	7528.7	8	16.2	376	74.2	-12	0.6	0.2	4.1	36	0.83
Diamond Shamrock	702.4	5	1936.0	0	17.5	1	30.2	-23	2.5	2.6	6.3	20	0.97
Exxon	27452.0**	12	77176.9	1	1135.0	2	3440.0	-23	4.1	4.6	13.0	17	3.62
Holly (5)	156.0	34	389.5	11	9.6	265	2.4	-73	6.1	2.3	13.5	71	0.33
Kerr-McGee	857.5	3	2516.4	5	25.4	-5	64.3	-4	3.0	3.2	6.5	20	2.05
Louisiana Land & Exploration	208.5**	4	583.7	-3	8.2	273	-12.9	NM	3.9	1.1	-1.7	NM	-0.24
Mapco	703.7*	1	2047.7	0	30.8	-14	88.7	-6	4.4	5.1	27.1	14	4.01
Maxus Energy	174.8	-7	510.3	-13	-9.2	NM	-51.1	NM	NM	NM	NM	NM	-0.86
Mitchell Energy & Development (11)†	214.9	9	657.4	2	9.5	20	14.2	-59	4.4	4.0	4.6	31	0.60
Mobil	14560.0**	8	41825.0	0	413.0	13	795.0	-48	2.8	2.7	6.9	22	2.85
Murphy Oil	425.6**	2	1230.9	-4	14.7	-62	41.1	NM	3.5	9.4	5.5	23	1.62
Northern Petroleum	2268.0	-3	6598.0	-12	69.0	-53	133.0	-65	3.0	6.4	3.0	37	0.44
Oryx Energy	398.0**	21	1098.0	-11	5.0	NM	29.0	-51	1.3	NM	-4.6	NM	-0.28
Phillips Petroleum	3098.0	4	8852.0	-6	99.0	77	115.0	-58	3.2	1.9	-2.3	NM	-0.24
Santa Fe Energy Resources	127.9	36	304.1	6	7.3	284	0.3	-98	5.7	2.0	0.4	NM	0.03
Sun	3070.0**	4	8290.0	-7	-320.0	NM	-335.0	NM	NM	NM	-14.4	NM	-3.48
Texaco	10005.0**	7	27965.0	-2	269.0	-6	714.0	-26	2.7	3.1	10.9	17	3.62
Udco	580.4	18	1554.4	4	6.1	192	47.1	12	1.1	0.4	17.1	8	2.35
Ultramar	660.4	-4	1941.2	-7	0.6	-96	41.1	-42	0.1	2.0	NA	NA	NA
Union Texas Petroleum Holdings	177.7**	-35	526.8	-40	21.2	-59	92.7	-63	11.9	18.6	20.3	21	0.90
Unocal	2253.0**	-7	6846.0	-7	11.0	22	93.0	5	0.5	0.4	2.7	91	0.29
USX-Marathon Group	3382.0*	-3	9544.0	-8	17.0	-26	278.0	76	0.5	0.7	1.1	NM	0.07
Valero Energy†	336.7	31	930.9	14	28.1	-6	75.7	0	8.3	11.7	12.2	10	2.29
PETROLEUM SERVICES													
GROUP COMPOSITE	4857.3	-1	14475.6	-2	277.9	-10	698.6	-10	5.7	6.3	10.8	24	1.59
Arco	148.9	-2	444.4	-1	4.1	-29	11.7	-25	2.8	3.8	5.5	34	0.19
BP Industries	428.7**	6	1240.3	4	20.8	28	55.4	29	4.9	4.0	11.9	17	1.80
Exxon Industries (2)	971.1	-4	2827.6	-5	35.2	-20	68.6	-13	3.6	4.4	6.8	21	0.92

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE EARNINGS RATIO 10/23	12 MONTH EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Halliburton	1577.2**	-8	4873.7	-7	33.0	34	55.2	-35	2.1	1.4	0.1	NM	-0.02
Schlumberger	1594.2	8	4699.6	4	172.7	-12	507.5	0	10.8	13.4	19.2	20	3.39
Tidewater (9)	137.2	-3	393.0	-3	12.1	-42	0.2	NM	8.8	14.8	2.2	91	0.23
12 HEALTH CARE													
INDUSTRY COMPOSITE	45518.2	13	133761.8	11	3816.6	-4	12771.4	6	8.4	9.9	24.2	20	2.08
(a) DRUG DISTRIBUTION													
GROUP COMPOSITE	11877.8	15	35580.3	16	146.2	40	178.6	-60	1.2	1.0	5.5	27	0.98
Bergen Brunswig (4)	1340.9**	21	3899.1	19	14.9	26	46.4	6	1.1	1.1	13.9	12	1.41
Bindley Western Industries	731.4	24	2065.4	23	3.3	18	10.2	21	0.5	0.5	8.9	10	1.44
Cardinal Distribution (9)	481.7	32	1439.2	37	8.9	70	23.6	48	1.9	1.4	13.3	16	1.60
Drug Emporium (10)	184.3	0	576.9	6	-0.7	NM	-4.9	NM	NM	NM	-8.2	NM	-0.32
Eckerd (Jack) (11)	868.5	3	2795.4	3	-7.5	NM	19.0	281	NM	NM	NM	NA	NA
Fay's (11)	216.4	4	667.5	16	2.9	136	9.0	11	1.4	0.6	11.5	15	0.52
FoxMeyer (9)	1104.2	50	2883.3	29	6.0	41	22.9	46	0.5	0.6	6.1	13	0.98
Longs Drug Stores (11)	613.4	6	1863.6	2	13.5	-5	42.8	-6	2.2	2.5	12.3	13	2.64
McKesson (9)	2869.3**	12	8481.9	22	25.6	14	27.9	-62	0.9	0.9	9.0	40	1.00
Perry Drug Stores (2)	169.2	6	507.5	7	2.1	29	6.2	47	1.2	1.0	11.9	11	0.75
Revco D. S. (7)	472.9	8	1656.4	11	-1.5	NM	-314.6	NM	NM	NM	NM	NM	-8.33
Rite Aid (10)	983.4	9	2978.0	9	27.2	9	104.9	13	2.8	2.8	13.2	16	1.45
Walgreen (4)	1842.2	11	5766.2	11	51.5	12	185.2	14	2.8	2.8	18.4	22	1.78
(b) DRUGS & RESEARCH													
GROUP COMPOSITE	17566.0	13	50670.9	10	2667.6	-4	8893.3	9	15.2	17.9	30.3	19	2.67
Allergan	229.0	9	659.8	8	30.4	NM	73.6	NM	13.3	NM	20.9	16	1.47
American Home Products	2105.5	12	5860.2	11	427.7	11	1130.1	13	20.3	20.5	46.0	14	4.78
Amgen	303.4	70	784.9	66	88.9	80	223.8	491	29.3	27.7	36.3	34	1.93
Bristol-Myers Squibb	3102.6	13	8766.4	7	589.2	5	1624.7	5	19.0	20.4	36.0	16	4.12
Carter-Wallace (9)	167.3	-3	507.6	0	10.0	29	34.5	8	6.0	4.5	11.4	26	1.06
Genentech	125.9**	9	364.4	4	7.7	-43	14.6	-67	6.1	11.7	1.5	NM	0.13
Lilly (Eli)	1476.5	10	4511.9	9	-268.5	NM	516.4	-49	NM	22.2	14.9	21	2.81
Marion Merrell Dow	838.0	17	2523.0	21	178.0	15	549.0	20	21.2	21.5	39.8	10	2.41
Merck	2464.4	16	7061.4	12	644.5	17	1866.6	17	26.2	26.1	45.1	20	2.07
Pfizer	1827.6	3	5283.1	4	297.5	8	796.4	10	16.3	15.5	15.8	31	2.36
Rhone-Poulenc Rorer	1049.2**	22	2918.1	8	92.8	16	253.8	26	8.8	9.3	32.6	18	2.68
Schering-Plough	1019.8	15	3061.3	11	174.5	12	552.3	11	17.1	17.6	47.7	17	3.47
Syntex (5)	517.8	16	1576.6	16	92.5	9	340.0	14	17.9	19.0	38.3	11	2.10
Upjohn	900.7	8	2669.1	7	137.9	-2	411.5	3	15.3	16.8	28.5	10	3.05
Warner-Lambert	1438.3	14	4123.2	11	164.6	14	506.1	16	11.4	11.4	15.2	43	1.55
(c) HEALTH CARE SERVICES													
GROUP COMPOSITE	6330.0	6	18909.9	7	-37.6	NM	529.0	-17	NM	3.3	7.6	34	0.52
American Medical Holdings (4)	562.8	-7	1699.3	-11	6.5	1	107.7	NM	1.2	1.1	16.6	6	1.43
Beverly Enterprises	673.7	16	1907.7	13	13.6	43	32.4	46	2.0	1.6	7.4	21	0.49
Continental Medical Systems (6)	203.4	45	565.9	52	8.7	24	21.4	28	4.3	5.0	12.5	23	0.77
Foundation Health (6)	297.1	12	899.5	19	12.8	29	38.0	52	4.3	3.7	24.6	20	2.09
HCA—Hospital Corp. of America	1268.9	3	3887.7	4	-268.0	NM	-105.8	NM	NM	1.6	-13.0	NM	-1.60
Health Care & Retirement	126.6	2	367.1	3	7.0	41	19.2	55	5.5	4.0	8.8	18	1.47
Healthtrust (4)	566.4	10	1707.2	10	21.7	NM	71.2	NM	3.8	NM	12.9	17	0.90
Hillhaven (7)	304.0	-8	885.7	-9	8.8	NM	-5.5	NM	2.9	NM	-51.4	NM	-0.73
Lifetime	224.9	14	658.3	14	3.1	-30	1.3	-89	1.4	2.3	4.4	21	0.51
Manor Care (7)	245.4	9	710.3	11	16.0	52	59.8	140	6.5	4.7	22.7	17	1.24
National Health Laboratories	183.6	20	541.1	20	30.1	18	91.2	18	16.4	16.7	47.7	16	1.23
National Medical Enterprises (7)	938.7	-5	2914.0	-1	50.6	-29	40.9	-82	5.4	7.3	6.6	17	0.63
U. S. Healthcare	560.6**	29	1616.0	29	47.9	22	140.3	30	8.6	9.0	40.3	29	1.70
Universal Health Services	173.7**	4	550.2	6	3.4	36	17.0	-6	2.0	1.5	9.7	9	1.38
(d) MEDICAL PRODUCTS													
GROUP COMPOSITE	9744.4	14	28600.7	12	1040.5	15	3170.5	16	10.7	10.6	23.3	21	1.90
Abbott Laboratories	1968.8	19	5755.4	15	278.8	11	890.1	15	14.2	15.2	36.0	20	1.40
Bard (C. R.)	252.2	15	734.7	13	19.1	35	53.9	28	7.6	6.4	17.9	23	1.31
Bausch & Lomb	461.3	16	1280.7	13	50.0	15	119.7	15	10.8	11.0	12.0	32	1.60
Baxter International	2116.0	10	6168.0	8	151.0	13	395.0	15	7.1	7.0	13.7	16	2.01
Imcera Group (6)	416.8	9	1318.2	6	28.2	3	103.6	17	6.8	7.2	10.6	21	1.60
Johnson & Johnson	3480.0	12	10250.0	10	425.0	17	1353.0	14	12.2	11.6	28.5	20	2.40
Medtronic (8)	329.9	25	963.1	21	45.6	26	132.5	20	13.8	13.7	20.1	34	2.80
Mine Safety Appliances	126.0	2	383.2	5	2.3	-49	11.0	-28	1.8	3.7	5.1	17	2.20
Owens & Minor	300.0	15	872.2	17	4.0	46	10.7	58	1.3	1.0	12.4	19	1.01
U. S. Surgical	293.3	41	875.2	46	36.5	45	101.0	61	12.4	12.1	29.4	32	2.10
13 HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	8132.0	9	22563.1	7	351.0	23	723.9	85	4.3	3.8	4.3	71	0.40
(a) BUILDING MATERIALS													
GROUP COMPOSITE	6007.9	5	16985.0	6	266.9	14	528.6	77	4.4	4.1	0.8	NM	0.00
Hughes Supply (11)	135.8	13	379.7	7	0.5	NM	-1.4	NM	0.4	NM	-2.0	NM	-0.30
Lafarge	505.1	-7	1130.7	-5	45.9	5	-12.7	NM	9.1	8.1	-4.1	NM	-0.50
Owens-Corning Fiberglas	786.0	5	2144.0	2	32.0	23	60.0	329	4.1	3.5	NM	NM	-11.10

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-23	12 MONTHS EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Ply Gem Industries	176.6	10	471.4	9	4.4	20	4.5	60	2.5	2.3	5.2	19	0.52
PPG Industries	1440.8	3	4400.6	4	66.0	-4	251.5	48	4.6	4.9	10.3	22	2.66
RPM (7)	166.2	28	448.8	24	12.0	17	26.1	25	7.2	7.9	16.3	21	1.15
Sherwin-Williams	772.8	5	2139.9	8	57.3	14	125.4	19	7.4	6.8	16.1	17	1.67
Standex International (6)	127.1	13	364.9	6	5.5	18	16.7	27	4.3	4.1	16.6	14	2.61
Tecumseh Products	290.2	6	985.4	7	12.0	-5	49.9	57	4.1	4.6	8.2	10	5.55
Texas Industries (7)	155.5**	-5	440.4	-3	-0.9	NM	-7.9	NM	NM	3.8	-1.9	NM	-0.46
USG	474.0	7	1341.0	4	-33.0	NM	-131.0	NM	NM	NM	NM	NM	-3.13
Valspar (2)	190.1	7	498.9	8	11.4	24	24.2	34	6.0	5.2	20.5	21	1.55
Vulcan Materials	312.3	8	807.2	7	35.8	18	70.6	31	11.4	10.5	10.2	23	1.83
York International	475.3	15	1432.2	20	18.1	NM	52.7	711	3.8	0.3	13.9	18	1.67
(b) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	2124.1	22	5578.1	12	84.2	66	195.4	111	4.0	2.9	11.1	14	1.35
Capstead Mortgage	134.4**	120	360.2	125	13.2	51	37.0	53	9.8	14.3	14.7	10	3.38
Centex (9)	644.8**	17	1725.5	7	18.1	96	37.5	95	2.8	1.7	9.1	19	1.51
Kaufman & Broad Home (1)	290.3	5	709.6	-21	5.9	-14	13.3	0	2.0	2.5	8.4	19	0.77
Lennar (1)	125.0**	55	304.4	34	7.9	52	23.6	53	6.4	6.5	9.6	18	1.43
PHM	357.3**	16	930.5	8	22.8	69	48.4	123	6.4	4.4	15.8	10	2.61
Ryland Group	389.8	14	1046.5	21	9.7	41	20.6	165	2.5	2.0	6.7	18	1.34
U. S. Home	182.4**	45	501.5	39	6.4	NM	15.0	NM	3.5	0.1	18.0	3	0.33
14 LEISURE TIME INDUSTRIES													
INDUSTRY COMPOSITE	18735.8	8	52618.5	8	1252.5	-6	2979.9	14	6.7	7.6	11.9	21	1.41
(a) EATING PLACES													
GROUP COMPOSITE	4035.0	9	11480.9	7	362.5	17	869.1	18	9.0	8.3	18.2	19	1.53
Bob Evans Farms (8)	159.4	22	442.3	16	10.4	19	30.7	18	6.5	6.7	14.4	20	0.98
Brinker International (6)	151.2	22	424.3	21	10.8	29	30.6	32	7.2	6.8	15.0	31	1.23
McDonald's	1912.5	10	5304.9	7	289.2	12	730.7	11	15.1	14.9	18.6	17	2.53
Morrison Restaurants (7)	248.4**	3	785.5	6	7.0	22	25.1	25	2.8	2.4	16.4	17	1.35
Shoney's (2)	257.1**	5	811.3	7	15.4	27	38.2	33	6.0	5.0	NM	17	1.14
TW Holdings	996.2	3	2794.4	2	9.8	NM	-36.3	NM	1.0	NM	NM	NM	-0.39
Wendy's International	310.2	16	918.2	18	19.9	23	50.0	23	6.4	6.1	12.2	22	0.60
(b) ENTERTAINMENT													
GROUP COMPOSITE	1347.7	13	3864.7	16	154.6	20	256.9	148	11.5	10.8	7.9	22	1.24
Blockbuster Entertainment	283.8	24	802.3	30	41.3	51	96.9	50	14.5	11.9	18.9	21	0.70
Paramount Communications (2)	1063.9	10	3062.4	12	113.3	12	160.0	311	10.7	10.5	6.1	22	2.04
(c) HOTEL & MOTEL													
GROUP COMPOSITE	3194.1	7	9387.2	6	137.7	21	340.7	36	4.3	3.8	14.3	22	1.42
Axtar	141.2	9	390.5	7	8.5	27	15.5	273	6.0	5.2	4.0	18	0.35
Caesars World (5)	244.0	0	695.4	3	17.1	-7	49.8	40	7.0	7.5	19.5	12	3.01
Circus Circus Enterprises (11)	222.1	6	615.6	6	35.3	23	83.9	20	15.9	13.7	28.3	27	2.00
Hilton Hotels	323.0**	17	894.1	8	22.8	21	77.4	42	7.1	6.8	10.9	19	2.24
Marriott	1948.0	6	5937.0	6	26.0	44	66.0	20	1.3	1.0	14.6	26	0.76
Promus	315.8	8	854.6	10	28.0	21	48.1	56	8.9	8.0	11.9	30	1.37
(d) OTHER LEISURE													
GROUP COMPOSITE	10159.1	8	27885.6	8	597.6	-23	1513.3	-1	5.9	8.2	9.9	23	1.38
American Greetings (10)	366.9	9	1156.5	11	8.9	7	61.2	18	2.4	2.5	11.3	16	2.86
Brunswick	545.4	4	1718.0	10	11.2	49	42.9	NM	2.1	1.4	3.3	41	0.32
Carnival Cruise Lines (1)	487.8	-2	1162.7	6	134.8	3	238.6	11	27.6	26.1	20.4	15	1.98
Eastman Kodak	5179.0	5	14779.0	3	189.0	NM	695.0	67	3.7	NM	4.5	46	0.91
Fisher-Price	186.1	-1	486.3	7	14.4	69	26.4	140	7.7	4.5	14.3	24	0.97
Fleetwood Enterprises (8)	470.5	18	1269.9	20	14.5	20	33.6	34	3.1	3.0	8.9	19	1.87
Harley-Davidson	271.8	13	793.1	13	13.2	48	39.7	34	4.9	3.7	17.4	24	1.30
Hasbro	771.2	9	1709.7	24	67.4	42	113.3	208	8.7	6.7	15.9	18	1.79
Huffy	156.1	-2	516.6	0	1.8	-36	12.5	-22	1.1	1.7	12.4	12	1.25
Mattel	606.5	14	1336.9	19	70.1	20	108.3	17	11.6	11.0	28.8	19	1.38
Musicland Stores	213.5	6	599.5	10	0.1	NM	-4.9	NM	0.1	NM	7.4	14	0.80
Polaroid	514.1	8	1503.1	5	27.7	-95	69.4	-89	5.4	NM	16.6	12	2.60
Russ Berrie	152.1	84	334.8	72	28.9	120	50.9	227	19.0	15.9	26.2	7	3.83
Tyco Toys	238.1	35	519.5	42	15.7	7	26.2	125	6.6	8.4	11.2	11	1.36
15 MANUFACTURING													
INDUSTRY COMPOSITE	28149.3	7	82217.9	5	1189.5	29	3015.5	12	4.2	3.6	8.6	28	1.37
(a) GENERAL MANUFACTURING													
GROUP COMPOSITE	11130.5	8	32284.5	6	790.4	16	2111.0	13	7.1	6.6	14.6	22	2.08
Alliant Techsystems (9)	26.9	32	969.2	32	10.2	-3	27.6	-16	3.5	4.8	20.2	8	3.57
Avery Dennison	65.9	8	1993.2	5	18.6	48	61.2	35	2.8	2.1	9.5	19	1.30
Barnes Group	132.0	-3	403.9	-1	3.8	-25	7.1	-40	2.9	3.7	8.0	17	1.80
Blount (10)	182.4	18	515.0	18	1.3	NM	-0.3	NM	0.7	NM	0.7	94	0.10
Carlisle	134.0	1	408.7	9	6.6	NM	18.5	969	4.9	NM	11.8	14	3.05
Corning†	1153.1**	20	2873.0	18	106.5	2	256.1	14	9.2	10.8	15.3	21	1.80
Crane	338.9	-1	991.0	0	10.5	-17	10.0	-71	3.1	3.7	7.4	35	0.66

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS			RETURN ON COMMON EQUITY			PRICE EARNINGS RATIO		12 MONTHS EARNINGS PER SHARE
	QTD QUARTER 1992	CHANGE FROM 1991	9 MONTHS 1992	CHANGE FROM 1991	QTD QUARTER 1992	CHANGE FROM 1991	9 MONTHS 1992	CHANGE FROM 1991	QTD QUARTER 1992	QTD QUARTER 1991	QTD QUARTER 1991	QTD QUARTER 1992	QTD QUARTER 1991	QTD QUARTER 1991	QTD QUARTER 1992	QTD QUARTER 1991	
	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	%	%	%	%	%	%	%	%	
Duracell International (2)	420.5	8	1060.0	6	42.1	5	69.7	381	9.8	10.1	16.2	23			23		1.45
Federal Signal	135.5	16	387.2	12	9.3	12	24.8	10	6.8	7.1	19.6	20			20		0.97
Harsco	446.0	-7	1210.8	-11	26.8	7	66.4	35	6.4	5.6	19.2	9			9		3.57
Hillenbrand Industries (1)	545.5	22	1045.1	20	25.5	19	81.4	29	7.4	7.5	20.4	27			27		1.49
Illinois Tool Works	130.6	9	2897.2	8	49.1	9	148.5	5	6.9	6.9	14.6	20			20		3.35
Jostens (2)	153.9	1	655.9	1	0.9	-70	44.0	-12	0.6	1.9	18.2	19			19		1.45
Keystone International	135.1	2	398.5	4	11.8	26	33.1	9	8.7	7.0	10.2	33			33		0.73
Mark IV Industries (10)	304.9	-1	900.1	3	12.0	55	31.5	59	3.9	2.7	11.6	12			12		1.08
Minnesota Mining & Mfg.	3600.0	7	10510.0	4	338.0	14	948.0	6	9.4	8.8	18.6	19			19		5.51
Newell	402.1	18	1030.2	14	43.0	13	105.6	12	10.7	11.3	18.1	21			21		1.89
Parker Hannifin (5)	606.2	6	1838.6	3	16.0	5	43.9	40	2.6	2.7	6.9	21			21		1.38
Rubbermaid†	478.5	10	1371.0	9	52.6	14	122.9	-1	10.1	10.6	16.4	31			31		1.01
Tredegear Industries	126.0	4	361.9	1	4.1	68	16.7	206	3.0	2.0	8.2	14			14		1.18
Trinova	402.2	1	1263.9	0	1.7	NM	8.4	NM	0.4	NM	-45.2	NM			NM		-5.86
MACHINE & HAND TOOLS GROUP COMPOSITE	2964.9	14	8524.4	10	72.1	113	212.9	57	2.4	1.3	6.0	25			25		0.98
Black & Decker	1165.7	8	3086.0	3	12.1	24	33.3	58	1.0	0.9	4.0	22			22		0.79
Clark Equipment	209.2	19	611.4	12	-12.9	NM	-25.1	NM	NM	NM	-20.0	NM			NM		-3.35
Danaher	246.1**	18	694.4	13	9.7	128	22.9	65	4.0	2.1	7.2	28			28		0.83
Giddings & Lewis	186.3	18	446.9	129	9.9	80	23.5	70	6.3	7.6	8.6	20			20		1.05
Kennametal (6)	148.6	-1	452.9	-2	3.0	-18	11.1	-4	2.0	2.5	4.9	25			25		1.13
Snap-on Tools	225.6**	5	684.7	3	15.2	-18	53.2	-2	6.7	8.6	10.7	17			17		1.70
SPX	237.3	38	630.1	24	9.7	NM	20.2	NM	4.1	NM	9.2	16			16		1.32
Stanley Works	555.9	10	1618.9	12	25.4	-11	75.7	2	4.6	5.6	13.9	17			17		2.18
SPECIAL MACHINERY GROUP COMPOSITE	11358.5	5	33397.2	0	237.6	40	430.6	-24	2.1	1.7	1.3	NM			NM		0.25
Applied Materials (2)	193.8	16	540.9	13	10.7	28	26.5	33	5.5	5.0	9.0	32			32		0.92
Briggs & Stratton (6)	171.8	9	789.1	10	-2.0	NM	34.0	32	NM	NM	16.7	13			13		3.60
Caterpillar	2677.0	14	7460.0	-3	23.0	NM	-162.0	NM	0.9	NM	-12.4	NM			NM		-4.78
Deere (2)	1738.6**	-2	5064.7	-2	9.1	-71	33.2	-46	0.5	1.7	-1.7	NM			NM		-0.63
Dover	570.0	7	1689.8	3	33.8	3	95.2	-2	5.9	6.2	15.2	21			21		2.16
FMC	976.3	1	2471.3	3	42.3	1	162.4	14	4.3	4.3	44.9	9			9		5.25
General Signal	498.0	4	1240.5	4	17.9	10	52.7	16	4.4	4.1	13.9	15			15		3.66
Goulds Pumps	147.5	-1	429.9	0	8.4	-11	24.5	-4	5.7	6.3	13.2	15			15		1.46
Harnischfeger Industries (2)	331.0	-20	1032.1	-15	11.6	-20	36.0	-22	3.5	3.5	9.0	9			9		1.84
Indresco (2)	139.7	NM	409.3	NM	-10.4	NM	-15.5	NM	NM	NM	NM	NM			NM		NM
Ingersoll-Rand	904.0	4	2692.2	0	35.9	4	100.9	5	4.0	4.0	9.3	21			21		1.50
Interlake	184.0	3	527.5	-2	-3.1	NM	-7.9	NM	NM	NM	NM	NM			NM		-0.99
Joy Technologies (10)	143.0	3	445.8	-5	-1.2	NM	8.8	-28	NM	NM	19.8	44			44		0.22
Pentair	328.2	9	917.8	5	11.6	4	28.5	4	3.5	3.7	13.9	12			12		3.37
Rexnord (3)	126.6	3	394.0	-2	4.3	NM	7.3	-29	0.4	0.1	4.0	NM			NM		-2.81
Stewart & Stevenson Services (11)	200.0	25	567.5	18	10.6	25	29.8	31	5.3	5.3	13.5	24			24		1.33
Timken	404.0	5	1244.1	1	-8.9	NM	4.3	738	NM	NM	-3.2	NM			NM		-1.08
Tyco Laboratories (6)	808.7	8	2065.8	2	24.9	16	75.6	11	3.1	2.9	9.5	18			18		2.14
Varity (11)	881.4	7	2514.7	9	14.1	NM	-103.6	NM	1.6	NM	-46.3	NM			NM		-5.61
TEXTILES GROUP COMPOSITE	2695.5	7	8011.9	9	89.5	126	261.0	141	3.3	1.6	11.2	18			18		1.21
Albany International	142.6**	5	420.1	2	2.0	-26	2.6	-61	1.4	2.0	2.5	56			56		0.24
Cone Mills	170.5	3	507.4	12	10.9	48	33.8	728	6.4	1.3	36.5	9			9		1.56
Delta Woodside Industries (6)	152.9	-10	502.3	5	7.1	-29	29.1	9	4.7	5.9	16.6	6			6		1.43
DWG (8)	317.5	5	956.7	7	-1.2	NM	-3.9	NM	NM	NM	-6.4	NM			NM		-0.21
Fieldcrest Cannon	302.0	0	886.4	2	6.6	151	12.6	NM	2.2	0.9	5.6	12			12		1.37
Guilford Mills (6)	151.7	6	482.8	13	6.8	40	22.6	72	4.5	3.4	13.0	10			10		1.97
Interface	142.7	5	447.5	3	1.9	14	9.1	67	1.3	1.2	6.2	17			17		0.73
Shaw Industries (6)	546.8	26	1450.5	20	21.8	66	54.2	131	4.0	3.0	14.8	26			26		1.02
Springs Industries	498.0	4	1426.9	4	13.3	65	29.9	86	2.7	1.7	7.2	14			14		2.35
Unifi (6)	272.7	5	840.3	12	20.1	NM	67.8	124	7.4	NM	21.1	18			18		2.12
16 METALS & MINING																	
INDUSTRY COMPOSITE	14265.5	2	41694.8	1	249.3	-4	359.5	-36	1.7	1.9	-4.5	NM			NM		-0.86
ALUMINUM GROUP COMPOSITE	5811.2	-3	17139.0	-4	63.8	-57	203.2	-63	1.1	2.5	0.5	NM			NM		0.19
Aluminum Co. of America	2381.7	-4	7039.2	-6	62.2	-18	157.8	-38	3.6	3.1	-0.7	NM			NM		-0.43
Amox	999.0	2	2752.4	-4	20.8	NM	-49.1	NM	NM	0.3	-2.8	NM			NM		-0.69
Kaiser Aluminum	456.5	-10	1413.1	-8	3.9	-83	24.3	-70	0.9	4.5	9.0	9			9		0.69
Maxxam	531.7	-8	1626.2	-5	0.7	-87	3.0	-94	0.1	1.0	2.6	17			17		1.36
Reynolds Metals	1480.3**	3	4308.1	-1	20.8	-50	67.2	-48	1.4	2.9	3.1	32			32		1.53
STEEL GROUP COMPOSITE	6038.5	5	17546.8	4	-90.0	NM	-168.7	NM	NM	NM	-21.0	NM			NM		-3.06
Allegheny Ludlum	264.3	5	879.4	1	14.7	200	41.4	47	5.6	2.0	14.1	18			18		1.66
Armco	590.5	52	1601.9	27	-25.2	NM	-53.2	NM	NM	NM	-54.7	NM			NM		-3.36
Bethlehem Steel	1007.8	-10	3017.5	-8	-71.5	NM	-180.0	NM	NM	NM	NM	NM			NM		-10.97
Carpenter Technology (2)	109.4	10	448.9	5	3.8	73	10.2	-37	2.7	1.7	5.6	25			25		1.81

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS			RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE- EARNINGS RATIO 10/23	12 MONTHS EARNINGS PER SHARE
	3RD QUARTER 1992	CHANGE FROM 3RD QUARTER 1991	9 MONTHS 1992	CHANGE FROM 9 MONTHS 1991	3RD QUARTER 1992	CHANGE FROM 3RD QUARTER 1991	9 MONTHS 1992	CHANGE FROM 9 MONTHS 1991	3RD QUARTER 1992	3RD QUARTER 1991	3RD QUARTER 1990			
	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	\$ MIL.	%	%	%	%			
Commercial Metals (4)	348.2**	15	904.4	4	6.5	59	9.7	15	1.9	1.3	5.9	20	1.16	
Inland Steel Industries	858.6	0	2663.9	4	-35.1	NM	-60.7	NM	NM	NM	-27.9	NM	-9.09	
Lukens	253.7	56	635.3	28	9.2	-6	24.5	-22	3.6	6.0	6.4	32	1.05	
Nucor	423.6	14	1201.1	10	20.4	31	54.1	26	4.8	4.2	10.2	33	1.70	
Quanex (2)	141.9	-7	415.2	-5	2.6	-25	7.1	-12	1.8	2.3	6.0	21	0.85	
USX-U. S. Steel Group	1271.0	-1	3705.0	4	-7.0	NM	-14.0	NM	NM	0.4	-10.0	NM	-3.54	
Weirton Steel	263.7	4	800.5	6	-14.0	NM	-32.7	NM	NM	NM	-18.7	NM	-1.70	
Wheeling-Pittsburgh	235.5	-4	712.5	-1	-7.3	NM	-16.8	NM	NM	0.1	-5.8	NM	-0.81	
Worthington Industries (7)	250.4	13	761.1	17	12.9	1	41.8	29	5.1	5.7	14.1	24	0.95	
(c) OTHER METALS GROUP COMPOSITE	2415.8	5	7009.1	6	275.6	54	325.0	-41	11.4	7.8	4.6	61	0.51	
Asarco	489.6	-1	1435.1	1	18.6	81	30.4	-10	3.8	2.1	2.9	23	1.04	
Cyprus Minerals	431.7	-2	1233.7	-3	41.4	36	-255.6	NM	9.6	6.9	-38.4	NM	-7.64	
Freeport-McMoRan Copper & Gold	157.1	3	505.5	46	26.5	7	93.5	66	16.9	16.2	74.6	28	0.74	
Magma Copper	218.3	13	622.1	18	23.3	102	48.1	60	10.7	6.0	-22.5	NM	-3.10	
Mueller Industries	147.7	34	396.4	18	3.9	NM	10.5	NM	2.6	NM	-19.8	NM	-3.32	
Newmont Gold	143.5	5	418.0	-2	23.7	-18	70.5	-24	16.5	21.2	13.4	39	0.99	
Newmont Mining	155.8	5	472.3	1	18.3	50	86.6	21	11.7	8.2	44.6	29	1.60	
Phelps Dodge	672.1	9	1925.9	6	119.9	85	240.9	22	17.8	10.5	15.6	10	4.50	
17 NONBANK FINANCIAL														
INDUSTRY COMPOSITE	39601.8	0	113752.1	1	2280.0	5	7801.5	14	5.8	5.5	13.9	12	3.03	
(a) FINANCIAL SERVICES GROUP COMPOSITE	27097.4	2	75897.6	4	1461.7	-1	5706.7	16	5.4	5.6	16.7	12	3.17	
Alexander & Alexander Services	339.0	2	1007.3	0	8.8	22	46.5	88	2.6	2.2	2.8	91	0.28	
Alleghany	437.7	9	1314.4	30	17.5	-4	50.4	70	4.0	4.5	5.5	18	6.51	
American Express	6712.0**	3	20263.0	5	-205.0	NM	354.0	-36	NM	0.5	7.1	18	1.15	
Bear Stearns (6)	604.2**	1	1986.0	9	63.0	34	233.1	50	10.4	7.9	27.3	5	2.90	
Beneficial	446.9	-2	1371.8	1	38.5	2	124.3	13	8.6	8.3	13.3	10	6.04	
Block (H&R) (8)	178.0	4	1151.9	11	-7.1	NM	163.9	15	NM	NM	28.6	25	1.47	
Countrywide Credit Industries (10)	154.4**	110	395.8	107	34.2	187	85.2	207	22.2	16.2	16.9	13	1.99	
Crawford	150.0	10	434.3	8	11.0	10	29.3	2	7.3	7.3	21.6	18	1.07	
Edwards (A. G.) (10)	257.3**	17	778.8	26	26.9	13	85.2	32	10.5	10.8	20.8	8	2.47	
Equifax	278.3	3	830.9	4	22.3	26	59.3	55	8.0	6.5	20.6	18	0.91	
Federal Home Loan Mortgage Assn.	1104.0	4	3274.0	4	161.0	8	467.0	14	14.6	14.0	22.3	12	3.30	
Federal National Mortgage Assn.	3669.4**	9	10781.9	8	422.2	20	1220.8	12	11.5	10.4	24.6	12	5.79	
First Financial Management	403.4**	36	1076.1	31	31.7	31	81.0	46	7.9	8.2	10.4	18	2.02	
Marsh & McLennan	730.0**	8	2231.8	6	69.7	-6	251.7	0	9.5	10.9	27.3	21	4.25	
Merrill Lynch	3390.2**	12	10160.8	10	230.1	44	735.3	40	6.8	5.3	20.9	7	7.88	
Morgan Stanley Group (11)	2292.2**	NA	NA	NA	119.0	NA	NA	NA	5.2	NA	18.7	NA	NA	
PaineWebber Group	836.5**	3	2527.7	8	51.7	35	171.8	66	6.2	4.7	24.1	4	4.48	
Primerica	1245.6**	-3	3826.8	0	165.0	34	536.3	55	13.2	9.6	18.4	7	5.97	
Salomon	1747.0	-28	6054.0	21	6.0	-93	407.0	-24	0.3	3.5	8.8	12	2.68	
Schwab (Charles)	196.8**	-3	680.9	19	7.8	-41	56.0	68	4.0	6.5	30.5	10	1.84	
Student Loan Marketing Assn.	691.9	-16	2124.1	-15	100.1	15	292.7	15	14.5	10.6	40.0	17	4.07	
Transamerica	1232.6**	3	3625.4	4	87.4	72	256.0	84	7.1	4.3	5.6	22	2.04	
(b) INSURANCE GROUP COMPOSITE	9317.3	2	27915.3	2	627.4	41	1605.4	15	6.7	4.9	11.0	12	3.96	
Aetna Life & Casualty	4403.0	-2	13183.7	-4	126.7	75	252.0	-17	2.9	1.6	4.6	10	4.11	
Capital Holding	707.7	8	2134.4	10	88.9	42	232.1	26	12.6	9.6	15.9	10	5.95	
CCP Insurance	168.4**	20	450.2	24	22.0	68	55.2	82	13.1	9.4	52.0	NA	NA	
Conseco	298.2**	-14	1036.4	8	43.1	61	115.0	57	14.5	7.7	38.1	8	5.20	
Hartford Steam Boiler Inspection	172.7	9	507.4	9	2.9	-84	39.6	-33	1.7	11.8	13.8	22	2.65	
Progressive	412.5**	6	1306.6	17	44.7	299	106.7	129	10.8	2.9	20.8	19	4.04	
Provident Life & Accident	741.1**	7	2157.7	4	30.5	29	86.7	-7	4.1	3.4	7.9	11	2.43	
Safeco	859.0	2	2621.1	4	80.1	17	207.3	19	9.3	8.1	12.7	12	4.63	
Torchmark	511.7	7	1531.8	7	68.1	9	198.6	8	13.3	13.1	26.0	15	3.48	
Unitrin	372.6	21	1024.0	10	56.6	70	125.8	36	15.2	10.8	8.7	12	3.29	
UNUM	670.3	10	1962.0	9	63.8	21	186.4	20	9.5	8.7	15.3	13	3.5	
(c) SAVINGS & LOAN GROUP COMPOSITE	3187.2	-19	9939.2	-18	190.9	-26	489.3	-10	6.0	6.5	6.2	13	1.24	
Ahmanson (H. F.)	872.1**	-20	2769.0	-21	50.7	-22	140.9	-23	5.8	5.9	7.1	9	1.6	
Coast Savings Financial	149.2**	-27	481.5	-33	3.5	-49	13.1	-59	2.3	3.4	7.8	5	1.4	
Dime Savings Bank of N. Y.	211.2	-17	621.7	-17	11.5	NM	28.1	NM	5.4	NM	61.7	NM	-7.3	
Glenfed (6)	337.4**	-34	974.4	-32	-12.7	NM	-185.3	NM	NM	4.7	-23.0	NM	-4.6	
Golden West Financial	497.7	-12	1542.5	-8	69.7	15	213.6	22	14.0	10.7	16.8	9	4.3	
Great Western Financial	792.3**	-18	2520.7	-16	31.7	-59	151.2	-33	4.0	8.0	9.6	8	1.6	
Metropolitan Financial	125.6	4	420.7	15	12.2	0	57.3	69	9.7	10.1	20.1	4	3.3	
Standard Federal Bank	201.6**	-7	608.8	-7	24.3	56	70.3	58	12.1	7.2	16.2	7	2.8	

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TEN YEAR	11.60%



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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-23	12 MONTH EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
18 OFFICE EQUIPMENT & COMPUTERS													
INDUSTRY COMPOSITE	49540.7	11	147342.1	10	-1540.5	NM	823.0	-62	NM	2.5	0.5	NM	0.10
(a) BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	4121.6	19	12063.8	20	202.5	12	561.0	13	4.9	5.2	15.5	19	1.33
Bell & Howell	172.3	13	482.4	7	0.4	NM	-3.1	NM	0.2	NM	-31.5	NA	-6.95
CompuCom Systems	174.5	19	508.2	46	1.9	5	4.3	25	1.1	1.2	15.9	10	0.19
CUC International (11)	181.2**	15	525.9	15	13.5	40	22.3	-17	7.4	6.1	56.8	46	0.47
Deluxe	372.6	3	1121.8	4	50.5	12	147.0	13	13.6	12.5	25.4	18	2.38
Diebold	133.2	5	389.5	8	11.0	18	26.0	23	8.2	7.3	10.5	18	3.05
ElectroCom Automation	164.0	119	381.1	78	7.9	37	21.0	58	4.8	7.7	100.2	21	0.95
HON Industries	196.0	21	518.3	18	12.3	16	28.2	32	6.3	6.5	25.8	17	1.22
Intelligent Electronics (11)	581.2	26	1934.7	47	-4.3	NM	13.1	-54	NM	1.8	6.9	19	0.61
Merisel	554.3	42	1554.1	39	3.5	18	12.1	142	0.6	0.8	9.4	14	0.65
Miller (Herman) (7)	199.6	8	613.5	3	2.4	9	-8.9	NM	1.2	1.2	-1.2	NM	-0.13
Pitney Bowes	861.0	6	2506.4	3	80.5	15	229.3	12	9.3	8.6	16.7	19	1.96
Standard Register	170.2	4	511.8	0	8.7	28	26.9	36	5.1	4.1	11.6	13	1.39
Tech Data (11)	227.8	58	629.8	60	4.5	79	12.5	87	2.0	1.8	15.3	20	1.06
Wallace Computer Services (5)	133.8	17	386.2	11	9.7	33	30.3	18	7.2	6.4	11.1	14	1.76
(b) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	39507.6	9	117926.0	7	-2356.3	NM	-1458.1	NM	NM	1.6	-3.7	NM	-1.07
AM International (5)	152.4	-30	461.1	-28	-97.4	NM	-119.0	NM	NM	3.5	NM	NM	-2.81
Amdahl	588.8	40	1779.7	36	-30.8	NM	-9.4	NM	NM	1.3	-2.0	NM	-0.25
Apple Computer (3)	1767.7	17	5223.9	13	97.6	20	364.4	129	5.5	5.4	25.0	11	4.33
AST Research (6)	286.4	45	794.2	35	7.6	-54	43.0	-20	2.7	8.3	16.4	10	1.88
Ceridian	203.2	13	605.1	8	9.3	9	-39.7	NM	4.6	4.7	NM	NM	-1.30
Compaq Computer	1067.1	50	2677.1	12	49.4	NM	123.7	92	4.6	NM	9.9	17	2.25
Conner Peripherals	625.5	58	1618.0	37	41.9	141	112.6	42	6.7	4.4	15.9	9	2.19
Cray Research	220.2	7	570.3	4	6.5	-77	11.7	-78	3.0	13.7	9.5	8	2.59
Data General (3)	288.2	-2	821.2	-10	0.5	-97	-66.5	NM	0.2	6.2	-13.9	NM	-1.91
Dell Computer (11)	457.5	129	1109.3	105	21.9	77	57.2	84	4.8	6.2	22.0	19	1.85
Digital Equipment (6)	3314.3	1	10472.6	-3	-260.5	NM	-2443.9	NM	NM	0.4	-55.0	NM	-20.54
Dynatech (9)	132.6	9	376.7	7	4.2	7	8.9	9	3.2	3.3	8.2	13	1.42
Hewlett-Packard (2)	4040.0	15	12086.0	13	191.0	-1	823.0	31	4.7	5.4	12.2	15	3.75
Intergraph	303.3	3	869.3	-2	4.6	-68	10.4	-81	1.5	4.9	3.6	23	0.57
International Business Machines	14702.0	2	44963.0	5	-2778.0	NM	-1402.0	NM	NM	1.2	-7.8	NM	-5.01
Maxtor (9)	357.2	43	986.4	39	18.7	NM	70.3	NM	5.2	NM	40.1	5	2.54
Quantum (9)	362.8	48	1076.8	37	18.0	134	56.8	41	5.0	3.2	20.0	9	1.45
Seagate Technology (6)	742.6	20	2302.7	17	59.6	NM	159.6	NM	8.0	NM	19.8	6	2.46
Silicon Graphics (6)	231.1	26	678.7	8	13.1	NM	-96.4	NM	5.7	NM	-26.6	NM	-2.07
Storage Technology	387.1	0	1107.2	0	4.1	-83	23.2	-59	1.1	6.3	6.6	18	1.43
Sun Microsystems (6)	855.9	13	2780.9	9	4.8	-82	103.9	-32	0.6	3.5	10.5	21	1.49
Tandem Computers (3)	576.3	13	1582.4	7	27.2	846	53.4	90	4.7	0.6	-3.4	NM	-0.38
Tandy (6)	1160.1**	10	3321.1	9	32.1	-23	95.3	-2	2.8	4.0	10.3	12	2.15
3Com (7)	130.9	51	354.9	31	4.8	146	4.3	NM	3.7	2.3	3.5	78	0.24
Unisys	2067.5**	5	6165.5	-1	58.3	NM	195.0	NM	2.8	NM	25.0	9	0.94
Xerox	4487.0**	5	13142.0	2	135.0	12	402.0	11	3.0	2.8	9.1	18	4.26
(c) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	5911.4	24	17352.3	25	613.3	92	1720.1	49	10.4	6.7	21.5	29	1.36
Automatic Data Processing (6)	495.3**	15	1557.5	14	51.9	13	201.9	13	10.5	10.7	20.2	25	1.88
Borland International (9)	127.8	12	359.4	-7	5.4	NM	-19.8	NM	4.2	NM	-4.9	NM	-0.51
Computer Associates Intl. (9)	431.9	30	1269.3	30	47.0	25	124.0	38	10.9	11.3	18.0	15	1.14
Computer Sciences (9)	616.0	32	1866.1	33	17.1	22	56.9	15	2.8	3.0	11.6	15	4.39
Electronic Data Systems	2047.8	21	6033.7	22	167.3	15	457.5	12	8.2	8.6	20.6	22	1.29
Government Technology Services	140.8	16	274.6	5	3.8	-20	3.9	-34	2.7	3.9	10.2	7	0.86
Lotus Development	206.7	-6	654.1	13	30.1	40	65.8	77	14.6	9.8	18.6	12	1.66
Microsoft (6)	818.0	41	2314.3	45	209.0	45	597.9	47	25.6	24.8	32.1	34	2.61
Novell (2)	243.3	45	673.2	49	66.0	53	179.5	60	27.1	25.6	27.5	41	0.76
Oracle Systems (7)	306.9	25	956.7	19	10.0	311	55.5	177	3.2	1.0	16.7	47	0.49
Safeguard Scientifics	205.7	17	599.3	40	1.6	16	7.5	-16	0.8	0.8	10.3	7	2.02
Western Digital (6)	271.1	36	794.0	14	4.2	NM	-10.4	NM	1.5	NM	-27.4	NM	-1.07
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	21577.9	6	62898.2	5	554.4	24	1481.8	2	2.6	2.2	3.3	42	0.82
(a) FOREST PRODUCTS													
GROUP COMPOSITE	7740.0	6	22461.5	5	109.8	192	330.7	105	1.4	0.5	0.2	NM	-0.04
Boise Cascade	934.5	-8	2810.6	-6	-35.2	NM	-123.1	NM	NM	NM	-15.7	NM	-4.29
Georgia-Pacific	3061.0	3	8937.0	2	-37.0	NM	-32.0	NM	NM	NM	-3.7	NM	-1.15
Louisiana-Pacific	641.4	43	1656.0	28	55.7	110	135.8	188	8.7	5.9	11.4	19	2.67
Pope & Talbot	143.6	16	400.5	4	-0.9	NM	-5.1	NM	NM	NM	-8.0	NM	-1.20
Weyerhaeuser	2337.0	6	6881.7	5	107.2	149	286.7	84	4.6	1.9	0.9	NM	0.14
Willamette Industries	622.5	23	1775.7	22	20.0	48	68.3	123	3.2	2.7	7.2	22	1.58

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COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-23	12 MONTH EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
(b) PAPER													
GROUP COMPOSITE	13837.9	6	40436.7	5	444.5	9	1151.1	-11	3.2	3.1	4.7	28	1.20
Bowater	366.2	17	1095.0	14	-17.9	NM	-72.0	NM	NM	2.3	-8.4	NM	-2.03
Champion International	1259.2	3	3689.0	3	50.5	380	52.0	74	4.0	0.9	1.0	65	0.38
Chesapeake	236.2	8	675.6	6	6.3	29	13.1	35	2.7	2.2	5.0	24	0.86
Consolidated Papers	233.1	7	672.1	1	11.0	-44	40.6	-42	4.7	9.1	6.7	29	1.43
Fort Howard	307.7	3	865.6	0	-11.5	NM	-41.4	NM	NM	NM	NM	NA	-13.18
Glatfelter (P. H.)	133.4	6	411.0	-4	11.9	-31	42.3	-24	8.9	12.2	14.1	16	1.41
International Paper	3500.0	7	10242.0	8	100.0	-5	318.0	-5	2.9	3.2	5.9	20	3.22
James River Corp. of Virginia	1213.5	8	3586.5	4	7.0	-17	11.9	-83	0.6	0.8	0.2	NM	-0.06
Kimberly-Clark	1793.5	6	5281.8	5	139.0	10	413.5	12	7.8	7.4	20.8	16	3.45
Manville	592.6	11	1644.9	8	5.8	NM	30.5	NM	1.0	NM	-6.4	NM	-0.16
Mead	1254.5	4	3568.1	2	37.5	48	20.5	-64	3.0	2.1	2.6	56	0.66
Potlatch	340.1	5	1003.0	8	17.8	-2	68.4	73	5.2	5.6	8.9	16	2.90
Scott Paper	1239.5	8	3660.8	5	30.6	9	122.4	39	2.5	2.4	-1.7	NM	-0.49
Union Camp	780.3	2	2320.0	4	20.8	-38	28.2	-73	2.7	4.4	2.5	64	0.69
Westvaco (2)	587.9	4	1721.2	2	35.6	-5	103.1	15	6.1	6.6	8.6	16	2.29
20 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	12806.8	6	37606.8	4	675.9	61	1901.6	34	5.3	3.5	7.3	36	1.17
(a) BROADCASTING													
GROUP COMPOSITE	2007.8	4	5947.7	1	133.8	134	367.7	44	6.7	3.0	11.2	27	2.27
Capital Cities/ABC	1215.3	1	3702.0	-3	62.2	15	251.4	5	5.1	4.5	10.0	18	23.12
Gaylord Entertainment	180.5	5	483.2	6	11.5	113	20.6	NM	6.4	3.1	12.3	58	0.58
Multimedia	140.5	10	409.4	7	15.1	44	41.3	22	10.7	8.2	NM	19	1.49
Viacom	471.5	11	1353.1	8	45.0	NM	54.4	NM	9.6	NM	3.7	NM	0.21
(b) PUBLISHING													
GROUP COMPOSITE	10799.1	7	31659.1	5	542.1	49	1533.9	31	5.0	3.6	6.5	38	1.00
Belo (A. H.)	127.8	23	376.7	21	7.1	273	26.0	301	5.6	1.8	12.5	28	1.65
Commerce Clearing House	136.8	-7	501.7	-7	-1.7	NM	-11.9	NM	NM	NM	-5.6	NM	-0.31
Dow Jones	438.1	7	1341.8	6	21.1	32	92.9	35	4.8	3.9	6.6	29	0.95
Dun & Bradstreet	1190.4	8	3462.6	2	150.0	11	377.0	7	12.6	12.3	24.8	19	2.97
Gannett	848.6	4	2533.9	2	80.0	34	234.2	14	9.4	7.3	20.5	22	2.31
Houghton Mifflin	198.8	-6	376.5	-3	34.0	1	31.7	3	17.1	16.0	12.7	19	1.86
Knight-Ridder	564.9	4	1710.8	3	31.4	11	102.5	20	5.6	5.2	12.1	20	2.72
McGraw-Hill	532.7	9	1471.8	7	61.1	11	113.9	11	11.5	11.2	15.9	18	3.26
Media General	140.0	-2	428.7	-2	1.9	NM	11.0	NM	1.4	NM	9.8	21	0.77
Meredith (6)	177.4	4	544.4	-1	3.4	25	-3.0	NM	1.9	1.6	0.5	NM	0.11
New York Times	429.7	9	1318.1	5	-33.9	NM	-4.7	NM	NM	0.5	2.8	61	0.39
Reader's Digest Association (6)	680.0	18	2004.0	14	68.6	25	185.4	17	10.1	9.5	27.3	26	2.06
Scripps (E. W.)	295.1	-7	935.2	-1	7.8	-47	46.2	16	2.7	4.7	10.2	26	0.95
Time Warner	3246.0	10	9349.0	8	6.0	NM	18.0	NM	0.2	NM	-6.7	NM	-1.50
Times Mirror	914.4	3	2691.4	2	43.8	7	127.6	34	4.8	4.6	6.0	33	0.89
Tribune	527.4	5	1555.5	3	33.8	-2	94.0	-14	6.4	6.9	20.5	27	1.70
Washington Post	351.0	3	1057.0	4	27.5	9	93.0	30	7.8	7.4	14.5	19	11.82
21 SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	18451.5	13	53034.5	11	716.5	16	2158.9	30	3.9	3.8	14.0	23	1.25
(a) CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	4705.2	3	13416.2	0	86.3	-16	228.4	20	1.8	2.2	11.4	20	1.43
Apogee Enterprises (10)	145.8	-8	419.0	-5	1.9	-50	3.9	-61	1.3	2.5	3.6	36	0.31
Butler Mfg.	146.8	19	365.4	9	2.7	NM	-0.4	NM	1.8	NM	-14.8	NM	-1.23
EG&G	749.0	0	2099.6	3	22.1	2	61.9	8	3.0	2.9	19.5	13	1.53
Fluor (2)	1697.7	5	4868.8	-4	36.8	-22	98.0	-5	2.2	2.9	13.1	26	1.76
Foster Wheeler	658.3	41	1726.7	20	10.8	17	35.6	15	1.6	2.0	8.7	23	1.35
McDermott International (9)	734.6	-20	2351.3	-13	19.5	74	24.1	NM	2.7	1.2	13.4	11	2.01
Morrison Knudsen	573.1**	9	1585.4	9	-7.6	NM	5.3	-82	NM	2.1	2.9	51	0.40
(b) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	5317.9	18	15302.3	16	184.5	64	517.1	38	3.5	2.5	13.8	22	1.38
Anthem Electronics	139.9	33	388.4	26	7.9	33	22.5	31	5.6	5.6	17.0	18	2.35
Arrow Electronics	407.4	79	1168.1	68	13.3	NM	34.1	NM	3.3	NM	11.2	17	1.58
Bearings (6)	204.2	1	621.3	2	1.5	45	-1.6	NM	0.7	0.5	-0.9	NM	-0.17
Fisher Scientific International	210.9	6	608.5	9	8.3	NM	19.7	516	3.9	NM	17.7	16	1.56
Genuine Parts	960.9	7	2760.8	7	55.6	5	157.3	6	5.8	5.9	18.5	16	1.89
Getty Petroleum (11)	244.4	-14	765.5	-16	-3.8	NM	-3.4	NM	NM	NM	-5.8	NM	-0.37
Grainger (W. W.)	627.2	16	1765.8	13	37.1	17	101.4	9	5.9	5.8	15.1	22	2.55
Hall-Mark Electronics	178.5	25	518.5	25	6.5	NM	14.4	NM	3.7	0.3	15.2	11	1.80
Kaman	189.8**	0	583.5	1	4.5	1	13.2	2	2.4	2.4	8.4	11	0.94
Marshall Industries (7)	151.9	10	450.7	6	6.0	50	17.2	42	4.0	2.9	11.9	16	2.48
Office Depot	434.8	31	1254.9	31	9.8	56	25.6	234	2.2	1.9	9.8	55	0.54
Premier Industrial (7)	166.8	7	490.9	4	20.6	17	61.5	16	12.3	11.3	23.7	25	1.42
Staples (11)	192.9	54	566.5	67	-0.9	NM	6.3	NM	NM	NM	5.9	73	0.50
TBC	153.9	11	429.7	14	6.3	24	16.6	27	4.1	3.7	21.7	17	1.06
United Stationers (4)	331.3	47	847.0	20	1.6	-45	8.6	18	0.5	1.3	5.1	21	0.71

Footnotes on page 111

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COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE- EARNINGS RATIO 10/23	12 MONTH EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991	3RD QUARTER 1992 \$ MIL.	CHANGE FROM 1991	9 MONTHS 1992 \$ MIL.	CHANGE FROM 1991	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Univar (10)	464.1	26	1342.4	26	2.9	NM	6.7	NM	0.6	NM	4.3	28	0.38
VWR	131.6	11	367.8	11	3.5	15	7.2	25	2.7	2.6	23.1	18	0.82
Wyle Laboratories (11)	127.6	20	371.9	11	3.8	151	9.8	19	3.0	1.4	9.5	16	1.13
(c) POLLUTION CONTROL													
GROUP COMPOSITE	2840.4	18	8133.7	16	253.1	6	856.9	34	8.9	9.9	15.6	26	1.23
Air & Water Technologies (2)	183.7	17	511.1	7	-2.3	NM	-2.5	NM	NM	NM	-0.8	NM	-0.07
Chemical Waste Management	394.0	16	1164.6	18	38.7	17	121.0	37	9.8	9.8	13.3	29	0.65
Waste Management	2262.7	18	6457.9	17	216.7	5	738.4	27	9.6	10.8	16.9	25	1.54
(d) PRINTING & ADVERTISING													
GROUP COMPOSITE	2127.4	9	6295.8	10	124.2	24	364.0	22	5.8	5.1	19.5	18	1.63
Banta	166.2	15	470.5	13	10.7	26	26.6	28	6.4	5.9	14.2	14	2.57
Donnelley (R. R.) & Sons	1038.8	6	2983.8	7	72.4	15	161.6	18	7.0	6.4	12.9	20	1.48
Interpublic Group	435.8**	9	1321.8	15	12.4	26	65.3	21	2.9	2.5	16.8	22	1.43
Omnicom Group	327.8	19	984.2	14	10.4	35	41.7	13	3.2	2.8	17.1	17	2.19
Valassis Communications (6)	159.0**	7	535.5	7	18.3	63	68.8	39	11.5	7.6	NM	11	1.84
(e) OTHER SERVICES													
GROUP COMPOSITE	3460.5	20	9886.6	21	68.4	6	192.6	25	2.0	2.3	9.0	30	0.67
American Bldg. Maintenance (2)	193.4	3	567.4	4	3.3	7	8.2	11	1.7	1.6	12.2	13	1.43
CDI	218.3	15	636.8	11	1.3	NM	2.8	NM	0.6	NM	0.5	NM	0.03
Handleman (8)	212.3	27	786.9	56	4.5	-18	26.5	115	2.1	3.3	14.9	10	1.18
InaCom	239.6	25	737.3	72	2.7	NM	6.8	493	1.1	NM	9.3	12	1.06
Kelly Services	452.4	20	1245.5	18	11.4	0	26.1	-12	2.5	3.0	9.8	31	1.17
Manpower	938.0	27	2398.5	15	-1.5	NM	-29.7	NM	NM	NM	-22.4	NM	-0.68
Mid Atlantic Medical Services	149.9	44	427.6	50	3.6	39	8.6	35	2.4	2.5	34.6	21	0.84
Olsten	254.3**	18	708.6	14	5.9	41	14.4	41	2.3	1.9	15.6	25	1.19
Pinkerton's	163.8	12	485.7	13	1.1	-65	3.6	-51	0.7	2.1	7.7	13	1.09
Rollins	137.7	11	405.4	11	10.3	19	31.8	21	7.5	6.9	29.1	20	1.56
Safety-Kleen	184.6	15	542.7	15	6.2	-53	32.7	-13	3.3	8.3	9.2	36	0.80
Service Corp. International	183.9	21	571.8	24	17.1	-6	62.1	17	9.3	11.9	12.7	16	1.08
Volt Information Sciences (2)	132.2	9	372.6	9	2.5	180	-1.2	NM	1.9	0.7	-2.5	NM	-0.42
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	49047.4	3	144390.6	3	4258.6	241	12522.7	49	8.7	2.6	13.8	17	2.63
(a) EQUIPMENT & SERVICES													
GROUP COMPOSITE	21652.0	5	63290.0	3	1244.5	NM	3608.1	603	5.7	NM	18.3	17	2.35
American Telephone & Telegraph	16180.0	4	47400.0	2	963.0	NM	2807.0	NM	6.0	NM	19.8	17	2.59
Communications Satellite	146.0	15	407.1	7	-6.4	NM	26.0	-53	NM	14.8	6.8	20	2.15
DSC Communications	142.4	46	373.6	7	6.9	NM	-1.5	NM	4.9	NM	-5.3	NM	-0.23
MCI Communications	2682.0	11	7801.0	11	159.0	14	449.0	10	5.9	5.8	17.5	17	2.13
ScientificAtlanta (6)	171.2	34	490.5	33	6.8	198	18.6	NM	4.0	1.8	6.9	33	0.88
Sprint	2330.4	5	6817.7	4	115.2	19	309.1	15	4.9	4.4	15.2	14	1.85
(b) TELEPHONE COMPANIES													
GROUP COMPOSITE	27395.4	2	81100.6	2	3014.1	5	8914.6	13	11.0	10.7	12.5	17	2.77
Alltel	513.6	11	1524.5	12	57.7	18	162.9	12	11.2	10.6	17.1	18	2.42
Ameritech	2813.2	4	8309.9	3	330.5	-13	1010.5	5	11.7	14.0	14.4	14	4.52
Bell Atlantic	3167.0	0	9392.8	1	392.9	19	1054.7	7	12.4	10.5	17.4	15	3.14
BellSouth	3736.0	3	11291.5	5	385.6	9	1305.0	17	10.3	9.7	12.4	15	3.46
Centel	299.8	2	886.9	1	11.5	-60	75.7	-13	3.8	9.8	8.3	28	1.18
Cincinnati Bell	277.9	-3	851.2	4	12.5	-34	38.3	45	4.5	6.6	8.6	19	0.82
GTE	4965.0	2	14851.0	3	500.0	9	1373.0	31	10.1	9.4	16.4	16	2.04
Nynex	3324.7	2	9846.7	-1	319.7	10	987.0	16	9.6	8.9	7.8	23	3.58
Pacific Telesis Group	2512.0	1	7436.0	0	277.0	1	859.0	0	11.0	11.0	12.5	16	2.56
Rochester Telephone	201.6	8	593.6	15	18.4	15	50.3	-13	9.2	8.6	11.6	16	2.00
Southern New England Telecomms.	405.2**	-1	1208.5	0	39.3	6	119.2	33	9.7	9.0	12.5	14	2.47
Southwestern Bell	2617.7	8	7293.4	7	385.6	6	951.7	13	14.7	15.0	14.1	16	4.22
US West	2561.7	-2	7614.8	1	283.4	5	927.3	11	11.1	10.3	6.5	23	1.57
23 TRANSPORTATION													
INDUSTRY COMPOSITE	30975.2	6	89504.1	7	404.1	54	478.4	156	1.3	0.9	-3.2	NM	-0.63
(a) AIRLINES													
GROUP COMPOSITE	13154.8	10	37349.6	12	-271.7	NM	-1124.6	NM	NM	NM	-20.7	NM	-5.73
Alaska Air Group	321.1	2	856.4	2	-2.2	NM	-35.7	NM	NM	5.3	-17.6	NM	-3.25
America West Airlines	321.6	-10	992.2	-9	-70.8	NM	-114.1	NM	NM	NM	NM	NM	-7.26
AMR	3725.0	6	10819.0	14	-85.0	NM	-231.0	NM	NM	2.0	-8.6	NM	-4.92
Delta Air Lines (6)	3064.0	19	8704.6	18	-106.7	NM	-438.5	NM	NM	0.5	-45.4	NM	-13.41
Southwest Airlines	447.3	26	1238.0	29	26.9	71	63.9	253	6.0	4.4	9.1	31	0.80
UAL	3575.4	11	9687.8	11	21.5	-14	-165.9	NM	0.6	0.8	-28.3	NM	-17.78
USAir Group	1700.4	6	5051.6	4	-55.4	NM	-203.3	NM	NM	NM	-27.0	NM	-5.40
(b) RAILROADS													
GROUP COMPOSITE	8476.6	3	24767.2	3	485.4	618	1235.2	142	5.7	0.8	1.7	NM	0.32
Burlington Northern	1158.0	0	3434.0	2	61.0	-10	177.0	NM	5.3	5.9	17.5	14	2.67
Chicago & North Western	253.4	3	735.0	0	19.5	89	36.1	136	7.7	4.2	-74.5	NM	-3.83
Consolidated Rail	847.0	1	2488.0	3	75.0	-4	190.0	12	8.9	9.3	-7.8	NM	-2.43
CSX	2214.0	0	6489.0	2	128.0	19	-132.0	NM	5.8	4.9	-17.0	NM	-4.75
Illinois Central	131.4	-6	400.0	-2	17.6	0	55.6	19	13.4	12.6	22.9	13	1.76

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-23	12 MONTH EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Kansas City Southern Industries	189.5**	20	542.4	21	16.2	32	46.6	46	8.5	7.8	13.8	16	2.73
Norfolk Southern	1190.0**	2	3435.1	3	146.0	-3	429.7	12	12.3	12.9	1.8	91	0.66
Santa Fe Pacific	642.3	7	1864.8	7	-162.9	NM	-103.8	NM	NM	4.8	-6.4	NM	-0.40
Union Pacific	1851.0	6	5378.0	3	185.0	NM	536.0	NM	10.0	NM	16.4	16	3.53
(c) TRANSPORTATION SERVICES GROUP COMPOSITE	4607.8	4	13600.0	3	75.1	5	18.0	-75	1.6	1.6	2.0	76	0.40
Air Express International	171.5	15	497.5	14	5.3	60	13.6	45	3.1	2.2	32.4	15	1.55
Airborne Freight	371.6	6	1091.4	8	2.1	-76	-0.4	NM	0.6	2.4	1.3	NM	0.18
Federal Express (7)	1864.9	2	5645.8	1	12.2	-29	-145.3	NM	0.7	0.9	-7.5	NM	-2.20
PHH (8)	513.3	3	1488.9	-2	12.6	13	40.9	14	2.5	2.2	11.8	13	3.01
Ryder System	1292.7	2	3858.4	3	33.1	32	88.1	98	2.6	2.0	7.5	18	1.32
Trinity Industries (9)	393.8	21	1018.0	10	9.7	62	21.0	29	2.5	1.8	8.3	27	1.23
(d) TRUCKING & SHIPPING GROUP COMPOSITE	4736.0	4	13787.3	4	115.2	-23	349.8	19	2.4	3.3	7.1	18	1.57
Alexander & Baldwin	195.4**	0	548.5	0	21.3	-18	59.9	-7	10.9	13.2	11.8	11	1.90
American President	591.2**	-2	1835.5	3	23.5	-30	67.4	24	4.0	5.5	17.9	8	4.72
Arkansas Best	248.6	7	719.4	9	7.0	-36	15.1	73	2.8	4.7	8.5	18	0.74
Carolina Freight	185.9	4	541.9	4	0.1	-94	-0.2	NM	0.0	0.8	-0.7	NM	-0.12
Consolidated Freightways	1037.8	2	3031.2	-1	3.0	NM	14.0	NM	0.3	NM	-1.2	NM	-0.23
GATX	272.8**	0	764.0	5	-15.4	NM	16.9	-73	NM	8.1	4.3	20	1.27
Greyhound Lines	198.3	-5	516.7	-7	15.0	-8	5.6	853	7.6	7.8	NM	NA	NA
Hunt (J. B.) Transport Services	241.2	24	666.3	25	10.4	18	26.5	29	4.3	4.5	15.4	22	1.01
Preston	152.7	4	434.7	2	-1.0	NM	-3.2	NM	NM	0.1	-9.6	NM	-1.35
Roadway Services	836.7	12	2442.9	15	32.8	4	95.9	26	3.9	4.2	15.0	17	3.75
TNT Freightways	204.0	17	582.8	17	7.0	23	17.3	30	3.4	3.3	9.8	18	1.06
Yellow Freight System	571.3	-6	1703.5	-4	11.6	38	34.6	37	2.0	1.4	7.5	22	1.28
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	49407.1	3	138434.0	2	6318.4	18	14209.9	8	12.8	11.2	10.3	15	2.04
(a) ELECTRIC, WATER, & COGENERATION GROUP COMPOSITE	43689.8	2	120495.1	2	6137.2	16	13504.2	7	14.0	12.3	10.2	15	2.04
Allegheny Power System	552.0	-2	1730.4	1	49.0	-6	168.0	3	8.9	9.2	11.0	13	3.63
American Electric Power	1282.0	-1	3752.7	-1	123.3	-17	356.9	-16	9.6	11.6	10.2	14	2.32
Atlantic Energy	236.9	-8	622.1	1	44.1	-26	91.8	7	18.6	22.9	11.7	13	1.76
Baltimore Gas & Electric	679.3	-3	1893.8	2	124.6	7	221.9	2	18.3	16.6	8.5	15	1.49
Boston Edison	408.3	1	1052.3	4	73.7	7	92.5	13	18.1	17.1	12.0	12	2.11
Carolina Power & Light	824.3	5	2103.8	2	145.4	-5	308.8	-3	17.6	19.4	14.3	11	4.50
Centerior Energy	665.0	-7	1838.0	-7	138.1	25	213.4	-6	20.8	15.4	8.0	12	1.56
Central & South West	989.0	10	2437.0	8	176.0	-3	317.0	-6	17.8	20.1	12.7	15	1.90
Central Maine Power	207.2	2	657.6	4	15.2	12	51.8	14	7.3	6.7	11.8	11	1.97
Cincinnati Gas & Electric	352.1	0	1133.0	1	46.1	-10	157.2	-9	13.1	14.5	10.1	13	2.89
CipSCO	189.2	-5	543.0	-1	31.7	-19	62.9	-6	16.8	19.5	11.2	15	1.99
CMS Energy	599.0	-3	2230.0	-1	12.0	-63	82.0	NM	2.0	5.2	-3.6	NM	-0.49
Commonwealth Edison	1708.9	-12	4563.2	-5	235.9	-35	408.9	-22	13.8	18.6	-1.7	NM	-0.44
Commonwealth Energy System	199.7	5	652.0	0	5.1	29	26.4	18	2.6	2.1	7.2	19	2.21
Consolidated Edison Co. of N.Y.	1717.9	0	4454.1	-2	309.4	2	503.5	6	18.0	17.6	11.9	13	2.43
Delmarva Power & Light	231.4	-2	646.1	-1	34.1	6	83.1	17	14.7	13.6	11.6	14	1.59
Detroit Edison	911.5	-6	2672.3	-2	155.4	-5	437.2	1	17.0	16.8	18.3	8	3.69
Dominion Resources	1077.1**	1	2896.0	1	161.0	-17	339.8	-18	14.9	18.2	9.9	16	2.44
DPL	226.6	0	748.1	0	34.1	28	120.6	9	15.0	11.7	12.1	15	1.26
DQE	314.4	-6	902.5	-1	48.2	6	117.4	3	15.3	13.6	12.5	12	2.62
Duke Power	1139.5	3	3020.2	4	190.5	-8	383.8	-21	16.7	18.9	10.6	17	2.08
Florida Progress	626.6	6	1601.8	2	78.8	4	152.2	-5	12.6	12.8	9.9	16	1.98
FPL Group	1569.2	3	3922.1	-4	199.2	1	398.9	9	12.7	13.0	11.8	15	2.36
General Public Utilities	890.2	-3	2594.0	2	92.5	-4	226.3	-9	10.4	10.5	8.4	15	1.76
Gulf States Utilities	517.9	4	1338.5	4	69.0	3	121.4	19	13.3	13.5	4.5	22	0.75
Houston Industries	1392.2	2	3465.1	3	240.9	2	301.7	-24	17.3	17.2	9.9	17	2.58
Illinois Power	394.9	-2	1114.0	0	65.7	3	101.1	10	16.6	15.9	6.2	17	1.18
Ipalco Enterprises	166.2	-7	476.6	-4	28.4	-16	70.8	-16	17.1	19.1	11.4	15	2.36
Kansas City Power & Light	229.4	-10	606.0	-6	38.0	-23	67.7	-30	16.6	19.5	8.5	19	1.16
KU Energy	152.0	-3	436.4	-2	22.9	-8	62.1	-8	15.1	15.9	13.1	14	2.00
LG&E Energy	210.0	12	604.3	11	31.1	-14	65.4	-18	14.8	19.3	10.4	15	2.16
Long Island Lighting	747.7	-3	2026.0	3	141.4	-2	267.4	-5	18.9	18.7	10.7	12	2.04
Montana Power	229.7**	10	700.6	5	15.6	12	62.3	-7	6.8	6.7	11.5	13	1.91
Nevada Power	204.1	11	461.3	11	43.0	39	55.2	59	21.1	16.8	10.2	15	1.49
New England Electric System	540.9	4	1614.9	3	51.1	8	150.9	4	9.4	9.1	12.6	12	2.85
New York State Electric & Gas	367.8	5	1259.6	8	26.6	-10	149.8	3	7.2	8.4	9.5	14	2.28
Niagara Mohawk Power	822.5	12	2737.9	8	40.4	-1	214.6	3	4.9	5.6	9.5	12	1.55
Northeast Utilities	867.7	25	2349.2	16	72.4	-7	233.2	6	8.3	11.3	11.6	12	2.04
Northern States Power	523.4	-11	1587.4	-5	55.7	-38	131.0	-23	10.6	15.2	9.3	18	2.41
Ohio Edison	601.5	-3	1754.9	-1	81.0	15	217.5	2	13.5	11.3	10.3	13	1.64
Oklahoma Gas & Electric	443.3	4	1010.9	-2	76.0	1	89.1	-27	17.2	17.6	10.8	13	2.46
Orange & Rockland Utilities	191.0	12	615.1	16	17.2	5	36.3	-1	9.0	9.6	11.9	13	3.07
Pacific Gas & Electric	2798.8	11	7738.3	8	351.9	5	964.8	24	12.6	13.3	14.1	12	2.69
Pennsylvania Power & Light	655.9	-2	2057.8	0	72.9	-10	255.7	-3	11.1	12.0	12.8	13	1.97

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE EARNINGS RATIO 10/23	12 MONTHS EARNING PER SHARE
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Philadelphia Electric	996.1	-8	2979.3	-2	142.3	-18	325.1	-27	14.3	16.1	9.1	16	1.61
Pinnacle West Capital	526.3	11	1286.5	10	93.4	9	156.3	28	17.7	18.1	-22.2	NM	-3.51
Portland General	195.3	-5	630.1	-1	15.7	NM	60.1	NM	8.0	NM	5.5	22	0.84
Potomac Electric Power	546.3	-5	1237.9	-2	120.8	-9	163.9	-10	22.1	23.2	9.8	16	1.60
Public Service Co. of Colorado	407.3	7	1356.7	3	29.8	-13	105.0	15	7.3	9.0	14.0	11	2.65
Public Service Co. of New Mexico	206.3	4	632.5	-1	8.5	-5	29.7	45	4.1	4.5	3.2	22	0.59
Public Service Enterprise Group	1249.3	1	3955.0	3	145.5	-18	433.8	-9	11.6	14.1	10.6	13	2.17
Puget Sound Power & Light	219.2	5	740.1	5	18.0	-18	95.6	-7	8.2	10.5	11.8	13	2.04
Rochester Gas & Electric	198.3	1	651.2	4	17.5	1	41.3	-4	8.8	8.8	8.0	16	1.45
San Diego Gas & Electric	487.8	8	1395.7	7	54.7	2	150.6	-6	11.2	11.8	13.5	14	1.66
Scana	305.6	-1	858.4	-1	41.3	-20	95.4	-19	13.5	16.6	10.9	15	2.78
SCEcorp	2550.0	13	6029.8	7	282.0	9	617.6	0	11.1	11.5	12.0	14	3.17
Southern	2386.0	1	6205.4	1	429.6	8	890.2	17	18.0	16.9	14.4	11	3.19
Southwestern Public Service (4)	216.6	7	565.2	4	35.6	-2	77.9	-8	16.5	17.9	14.3	13	2.34
Teco Energy	341.2	5	887.4	2	54.3	8	117.2	1	15.9	15.5	16.1	16	2.56
Texas Utilities	1478.5	2	3731.7	0	325.0	NM	627.6	NM	22.0	NM	9.4	14	2.90
Union Electric	656.3	-5	1588.7	-5	166.8	0	265.9	-13	25.4	24.3	12.8	14	2.61
Wheelabrator Technologies	382.0	34	1062.7	27	33.4	14	139.2	43	8.7	10.3	16.7	19	1.81
Wisconsin Energy	358.3	-2	1137.9	0	39.1	-24	126.5	-13	10.9	14.1	11.5	15	1.68
WPL Holdings	151.4	-1	469.6	-2	13.1	-31	40.5	-19	8.7	12.4	11.9	17	2.06
Zurn Industries (9)	177.5	37	472.7	10	6.2	-4	4.5	-79	3.5	5.0	4.5	38	0.86
(b) GAS, OIL & TRANSMISSION GROUP COMPOSITE	5717.3	13	17938.9	3	181.1	177	705.7	27	3.2	1.3	11.0	17	2.10
Eastern Enterprises	203.3	11	810.1	10	-3.6	NM	35.0	35	NM	NM	7.3	15	1.70
El Paso Natural Gas	217.2	31	580.0	5	14.0	-34	59.7	-13	6.5	12.7	11.8	18	1.67
Enron	3502.5	7	10102.2	2	62.4	103	229.5	30	1.8	0.9	12.8	19	2.55
MCN	184.9	21	988.3	12	-14.9	NM	44.1	43	NM	NM	12.3	14	1.83
Nicor	187.4	9	1025.3	-2	11.5	37	68.9	-3	6.1	4.9	15.2	13	3.73
Panhandle Eastern	567.4	32	1733.2	-1	71.9	352	144.1	163	12.7	3.7	12.8	12	1.61
Sonat	299.7	14	1015.2	-1	21.3	150	60.0	-7	7.1	3.2	6.4	26	1.71
Williams	554.9	33	1684.5	14	18.6	226	64.3	3	3.4	1.4	8.2	16	2.28

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

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Air & Water Techs 21c	AMR 23a	Barnes Group 15a	Brunswick 14d	Chrysler 2a	Continental Medical 12c	Diamond Shamrock 11b	ElectroCom Automation
Air Express Intl 23c	Analog Devices 9d	Barnett Banks 3c	Burlington Northern 23b	Church & Dwight 6d	Cooper Industries 9a	Diebold 18a	Electronic Data 18c
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Airborne Freight 23c	Anthem Electronics 21b	Bausch & Lomb 12d	Butler Mfg 21a	Cincinnati G&E 24a	CoreStates Financial 3a	Dillard Dept. Stores 8	Enron 24b
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Alberto-Culver 6d	Applied Materials 15c	Beaumont Instruments 9c	Caesars World 14c	Circus Circus 14c	Courtney Credit 17a	Dollar General 8	Exxon 11b
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CORPORATE SCOREBOARD

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

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XYZ



The challenge:

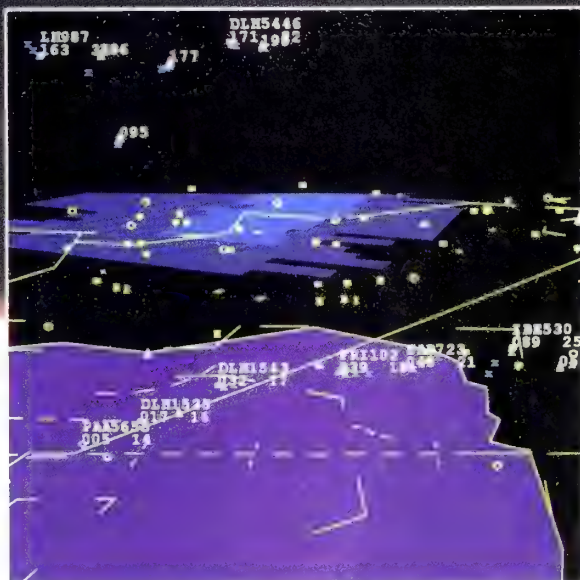
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WE THRIVE ON CHALLENGES

CAN THE KING OF BEAUJOLAIS BRING BACK THE BUZZ?

Poor sales almost everywhere don't faze Georges Duboeuf



DUBOEUF: USING RUMBLE SEATS AND ROLLER SKATES TO HYPE THIS YEAR'S HARVEST

The sour smell of new wine hangs over Romanèche-Thorins, a drab village in central France, where Georges Duboeuf is holed up in a laboratory working marathon days. Known in France as "the king of Beaujolais," Duboeuf is tasting thousands of wines from small growers—some 300 per day. He blends those he likes, bottling them under his own name. "I'm like a cook doing his shopping," he says. On Nov. 19, Duboeuf will hop on the Concorde for New York. Then, the annual hoopla will begin over Beaujolais nouveau, the light, tangy red wine that's the first blush of the grape harvest.

Riding in a 1934 Packard convertible with a case of nouveau in the rumble seat, Duboeuf will hand the wine to waiters on the steps of Manhattan's Grand Hyatt Hotel—while, with any luck, TV cameras whir. Then, he'll head for the World Trade Center to dispatch 15 cases up the window-washing lift to the 107th-floor restaurant. Duboeuf will sponsor similar stunts in the U.S., such as a race in Raleigh, N.C., for Beaujolais-toting waiters on roller skates.

Heavy kitsch—but it works. Earnest, soft-spoken Duboeuf, 59, who began his career delivering wine to restaurants by bicycle, has used such ploys to make

the Georges Duboeuf label the top French wine brand in the U.S. His deft marketing has also boosted recognition and sales for all Beaujolais growers, who till vineyards south of Burgundy. Although it's only 15% of Duboeuf's sales of \$90 million or so, nouveau remains the headline-grabber. Nouveau has made news since the 1960s, when British enthusiasts raced to be first across the Channel with a case.

STICKER SHOCK. But everywhere except the U.S., Beaujolais is in trouble. That includes its non-nouveau, later-bottled varieties—two-thirds of the region's production. The reason: Rising demand went to growers' heads. And they boosted prices dramatically (chart). Then, recession and sticker shock dried up sales. Total world exports fell from 692,000 hectoliters in 1988 to 535,000 last year. Beaujolais drinking in Japan, once a booming new market, plunged 50% in 1991.

To move heavy stocks, sellers have been cutting prices. Recently, two shippers dumped 350,000 bottles

through a Dutch supermarket chain at \$5 a bottle retail—slashed from \$8. Duboeuf, who bottles 15% of all Beaujolais, teamed up with other bottlers this year and, after a bitter fight, got growers to agree to production limits. But prices will fall further, says Duboeuf, especially since the 1992 vintage won't match last year's quality.

In this environment, Duboeuf is thankful for America's new thirst. Ever since *60 Minutes* extolled red wine's health virtues on CBS a year ago, sales of low-priced reds have soared. Beaujolais exports to the U.S. are expected to rise 20% this year. Strong demand and a weak dollar mean U.S. prices of Beaujolais nouveau won't drop. Instead, they'll stay around \$8 for an air-delivered bottle, \$6 when ships arrive next month. Yet exporters fear Washington may kill U.S. Beaujolais sales by slapping a threatened 100% tax on French wines if General Agreement on Tariffs & Trade talks fail.

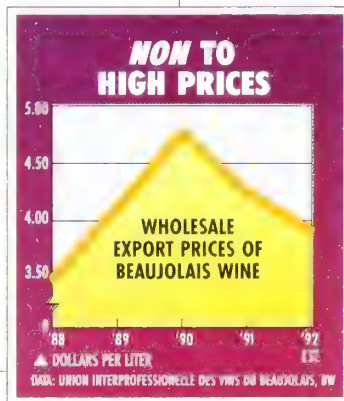
'NOT REAL WINE.' Credit for much of Beaujolais' U.S. success goes to Duboeuf. "He has created an incredible name," says Michael Aaron, head of New York wine store Sherry-Lehman Inc., which sold 15,000 cases of 1991 Duboeuf wine and expects to top that for the 1992 vintage. Yet for all his flashy U.S. marketing, Duboeuf is low-key at home. He refuses to sell in stores—except his own small Paris shop—fearing that supermarket displays would cheapen his image. His customers are restaurants plus 35,000 consumers who order by catalog. Duboeuf does do a big private-label business with such European chains as Marks & Spencer and Carrefour.

Some purists hate Duboeuf's promotions of Beaujolais nouveau. This young simple beverage "is not real wine," sniffed Georges Le Pré, sommelier at the Ritz Hotel in Paris. "It makes people forget that Beaujolais includes remarkable *crus*," such as Brouilly, Chiroubles, and Moulin-à-Vent—aged wines that can resemble classy Burgundies.

Hey, *le roi du Beaujolais* sells those too. Duboeuf's favorite among his 199

wines is Fleurie. This year, it may be Chiroubles. As for 1992 Beaujolais nouveau, Duboeuf warns that it won't keep long—maybe three months, compared with a year for some past vintages. In short, do your bit for the struggling vintners of Beaujolais: Drink it fast.

By Stewart T. Romanèche-Thorins



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—The Wall Street Journal, April 27, 1992

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EAST AFRICA

On our first day in the Ngorongoro Crater in northern Tanzania, we saw 13 lions, 5 rhinoceroses, and a small herd of cow elephants with nursing young—tiny pachyderms the size and general silhouette of Volkswagen Beetles. We saw thousands of bearded wildebeests, many hundreds of Thomson's and Grant's gazelles, and dozens of baleful, grim-faced grazing creatures known as *kongoni*. We saw a male ostrich with lewd pink legs and feathers like a dirndl skirt perform a mating dance. We saw Kori bustards scratching the ground for tasty snakes, and



patient vultures searching for the updrafts that would shoot them skyward. We saw great galumphing blobs of hippos sliding down mud banks into their all-day wallows, and baby baboons hunkered on their mothers' backs like jockeys. We saw all this—and we hadn't even eaten breakfast. Ravenous, we took a time-out at 8:30 a.m.

As our experience suggests, Ngorongoro is very possibly the earth's best spot for viewing wild game. Indeed, if any complaint can be lodged against the crater, it is that too much can be seen too soon and too easily. Largely absent is the sus-



pense of stalking some elusive quarry, the challenge, I say, thinking like a hyena as to surmise where the hyenas should be. But East Africa is a distant place, and for North American visitors like me a limited amount of time is spent and don't know if they'll ever pass that way again. For such visitors Ngorongoro is the closest thing to a sure thing in an ever-certain world of unmasticated nature.

What makes Ngorongoro such a good bet is that it's amazingly compact. Its 100 square miles include grasslands, swamps, streams, an alkaline (soda) lake, and basically each a habitat with its own characteristic mix of species. Forget Biosphere II: If



WILD GAME FROM FLAMINGOS TO ZEBRAS, BLACK RHINOS, LEOPARDS, AND ELEPHANTS CAN BE VIEWED YEAR-ROUND AT NGORONGORO CRATER. OTHER EAST AFRICAN HAVENS ARE POPULATED BY MIGRATING ANIMALS

ing havens such as the Serengeti plain and the Masai Mara, the great mass of animals are migratory. The tourist's chances of seeing those places at their best are dependent upon the whims of rain and water holes. Ngorongoro has seasonal variations, too, but it also has a resident population of predators and prey who have learned the advantages of staying put.

The drama of what unfolds between those predators and prey heightens in proportion to population density—and real estate is at a murderous premium on the small and circumscribed crater floor. Think of it as an island city, a sort of beastly Manhattan, and you begin to understand the pace and intensity of what goes on there. It isn't always pretty—as when a mass of carrion birds completes the cleaning of a carcass, or competing lion prides stage monumental cat fights over territory. But as elemental spectacle, it cannot be surpassed.

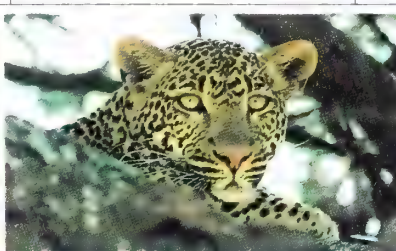
MASAI STORIES. Our tour was organized by Abercrombie & Kent International (800 323-7308), the leading outfitter for private, tented safaris. Our version was 15 days, took only seven people, and included stops in the Serengeti and Masai Mara. It cost a princely \$7,000 per person, not including airfare to Nairobi. For the price, one enjoys a level of luxury all the more impressive when you consider the logistics of serving up gourmet meals, a full bar, and hot showers in camp. The food is plentiful and includes such indigenous delicacies as impala. The tents are room-size, and the ratio

a universe in miniature, crater is the place. Thank geology for that. Ngorongoro lies in Africa's Great Rift Valley, an area of intense volcanic activity. As recently as 2½ million years ago, the crater was a huge volcanic caldera, probably higher than Africa's current highest peak, the 19,000-foot Kilimanjaro. But intense thermal activity died, and Ngorongoro cooled in like a failed volcano. The former cone now a bowl whose diameter is some nine miles in diameter and only a mile above sea level; the surrounding rim or caldera, rises to 14,000 feet and is the

largest unbroken volcanic shell in the world.

Climate is the other factor that has made the crater such a teeming cauldron of life. Ringed by cloud-catching high-

land forest, Ngorongoro has fresh water all year round—a rare thing in East Africa, with its alternating seasons of torrential rains and dusty droughts. In other game-view-



Personal Business

of staff to guests is downright colonial.

Only 9000 was a Westernized Masai named William Meiliari. He had amazing eyesight, a dry sense of humor, and bore an uncanny resemblance to Muhammad Ali. Before getting his present job, Meiliari worked for the Tanzanian Conservation Dept. as a ranger, head of antipoaching efforts in the crater, and pub-

he said, gesturing with a grand proprietary sweep, "this land was used by a tribe called the Datoga. But the Masai have certain beliefs. They believe, for instance, that God put cattle on earth only for them—so it is not stealing, but rather doing God's will, to take the cattle that other people somehow ended up with by mistake.

"This crater was a very

in the fractious politics of African conservation, the "Masai question" remains a thorny one. Relatively small in numbers, the Masai have, by dint of will and strength, long controlled great parcels of land in both Tanzania and Kenya. As pastoralists, they believe that land is to be used—not owned—and they don't take kindly to being told that they can't bring their herds or build villages in places the government has mysteriously defined as off-limits. As of now, the Ngorongoro Conservation Area (of which the crater comprises only 3%) is legislated as a "mixed land-use area." Cattle-raising is allowed, agriculture is not.

sible ecological blunders committed nearly everywhere else will somehow be avoided in Africa—indeed, that continent has already seen its share. Because of its uniqueness and ferocious beauty, Ngorongoro should be seen. And because of its undeniable precariousness, it should be seen soon.

Precarious, yes. But in the gorgeous and silently eventful hour before sunset, it is easy to forget all that. The vagaries of African politics, indeed, of all things complicated and human—seem as foreign as the British Airways 747 that brought us here.

SHAPELY FLANKS. A sudden breeze kicks up a dust devil from the silvery volcanic ash. A cheetah climbs an anthill, freezes, and waits for a gazelle to come too close. Lion, the most fearless animals around, the laziest, stretch reluctantly awake from their all-day sleep in plain view of any creature that would dare to bother them. Muscles twitch on the shapely flanks, and unabashed yawns reveal teeth as long as ice picks. Flamingos stand by the soda lake and feed on algae without ever lifting their heads. Crowned cranes come swooping down and run for balance when they hit the ground, like people stepping off a moving bus.

The sun slips behind the crater rim, and instantly it's cool. Tree hyraxes—climbing, squirrel-size creatures whose closest living relative is the elephant—launch into the hard, ratcheting call. The Land-Cruiser labors up the crater's side to camp. The fire has been started, and a campfire on an African safari is like a campfire nowhere else. It is warmth and safety, physical comfort and protection. It establishes a fleeting human stronghold, and keeps the animals away in the night.

But not so far away that we cannot hear the growl of lions, the seismic rumble of elephants, and the chatter of baboons. This is the music of Ngorongoro, the sound of the unending performance of nature's grandest amphitheater. *Laurence Shames*



had been his neighborhood for 15 years, and he knew it in astonishing detail. He knew that a lioness with a notched right ear was the precinct's greatest hunter. He knew that a certain elephant had lost a tusk. And he knew from which shrubs came the enzyme-rich twigs used by the local people as toothbrushes and from what trees came the medicine that broke malarial fever.

He knew, as well, where the name Ngorongoro came from. "Around 300 years ago,"

and since God insists that the Masai treat their cattle well, piety dictated that they should have it. So the Datoga had to move. Masai warriors are very fierce and brave, but they don't like to kill people unless it is necessary. So when they came to take the crater, they didn't sneak up; they wore bells, as a warning. The message was: 'If you want to leave, go in safety. If you want to die, stick around.' The sound of the bells was *ngorrrro, ngorrrro.*"

There is no denying that,

But Tanzania is a poor country and a rapidly changing one, and Meiliari, a political realist, stresses the fragility of Ngorongoro's status. "The outside world agrees," he says, "that the crater is a treasure, but the outside world does not elect local representatives to our Parliament. If the people decide that tourism is not the greatest benefit, if they see conservation as somehow holding them back...." The guide doesn't finish the sentence, and doesn't have to. It is hard to imagine that the irrever-



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SIBERIA

THE GULAG CAMP TOUR: IT AIN'T CLUB MED

The helicopter hovers a while before landing, and we get a good look at the barbed wire, the guard towers, the dilapidated wooden huts. It's not a typical tourist attraction, this lonely outpost in Russia's remote polar north. The place we're visiting is the Monogovody gulag, one of a string of work camps built across a stretch of Siberian tundra in the 1940s, when Stalin decided to use prison labor to construct a railroad. The last inmates were released in 1954. Since then, the camps have summoned only the occasional researcher or journalist. Ours is the first foreign tour group to arrive—nine of us, mostly Americans who are living in Moscow.

The Arctic Circle & Gulag Camp Tour is the brainchild of our guide, Olga Dougina, who owns the new Felix Travel Agency in Moscow (7-095-932-3716). A former guide at Intourist, the old Soviet state-owned monopoly, Dougina founded Felix to show foreigners "another Russia, a Russia off the beaten path."

WALL OF NAMES. The Monogovody gulag is about as far off the path as you can get—an hour-and-a-half chopper ride from the town of Salekhard, 1,200 miles north of Moscow. Not one road cuts through the empty landscape, only a half-finished railway bed that serves as a testament to the failed project. Years ago, prisoners either walked the 125 miles from Salekhard or were ferried along one of the nearby rivers. (Monogovody means "lots of water.") Trudging through the camp in foot-high snow in Oc-

tober as the temperature drops into single digits, we get what we came for—a taste of the bitter cold and cruel isolation endured by the inmates. In some ways, the numbing landscape is more horrifying than the dawn-to-dusk work days we learn about, or the mostly bread diet, or the bare barrack

features a wall covered with names and addresses of former prisoners or their relatives. The information comes from museum visitors, who are asked to help researchers dig out more facts of the half-buried history.

Like many Russian cities, Salekhard was off-limits to foreigners until about five years ago. Founded when the Cossacks conquered the region in the 16th century, Salekhard began to grow as a Soviet city in the 1930s and '40s, when Stalin forcibly relocated ethnic Germans and rebellious peasants to the site. The city is on the confluence

of the Ob and Palyui rivers, and the Soviets wanted to build a fish-processing industry there. "It's not easy to speak about it," says our local guide, "because old people, women, and babies were left on the bank of a river here and told to build a town. Many died." The canned fish now produced in Salekhard is too expensive for ordinary Russians; most is exported.

REINDEER PEOPLE. While in Salekhard, we also meet people from the region's three indigenous groups. Russians call them the "reindeer people." Their authentic names: Komi, Khanti, and Nyentsi. The sands still live in "chums," tepees made of reindeer. They eat reindeer meat (tried it, too—it tastes like venison). And although they were once persecuted for their pagan beliefs, many still practice ritual reindeer slaughter. We visited some of the sacred places along the river.

Our tour guide also ranges for a sauna at the town sports center—an hour-long event involving brain-zapping heat, an icy plunge, and ample quantities of vodka. A major hit.

This is a remarkable trip. But be warned—it's not for everyone. To enjoy it, you need more than a sense of adventure; you need a sense of what it is to rough it, Russian-style. The flight from Moscow to Salekhard took 10 hours, including a refueling stop and a five-hour layover. We wait out a blizzard, keeping with Aeroflot standards, no food offered. We brought our own. The hotel in Salekhard was clean and warm, but the plumbing was pathetic. There was much shopping.

SUB TENANTS. The costs about \$410 a day in Moscow, and is scheduled periodically. It's one of a number of venture trips in former Soviet Union offering every-

thing from ski-and-spa holidays to the Caucasus to white-water rafting in Russia's far north. So far, few of the tour agencies have overseas market arms. But Moscow's new English-language dailies carry listings and ads.

Meanwhile, Olga Dougina is hatching other ideas to secure her niche: latest, a trip to the northern port city of Murmansk, where the group will board a World War II-vintage Soviet submarine. Don't worry about the tel; you'll spend the time aboard a nuclear-powered icebreaker. *Deborah*



MONOGOVODY GULAG: BARBED WIRE, BITTER COLD, AND NUMBING ISOLATION IN "ANOTHER RUSSIA"

"shelves" where prisoners slept, their release dates scrawled on the walls above their heads. Fascinated as we are, we're relieved when it's time to board the helicopter.

Our trip also includes a two-day stay in Salekhard, a city of 32,000 that is cut in half by the Arctic Circle. The swooping, metal monument that marks the precise latitudinal spot is a favorite wedding-photo site for locals, who will tell you that anyone working north of the marker was entitled to hardship pay under the Soviets.

Once the administrative seat for the gulags nearby, the town also houses a remarkably candid exhibit about the camps and the never-completed railway. One section

of the Ob and Palyui rivers, and the Soviets wanted to build a fish-processing industry there. "It's not easy to speak about it," says our local guide, "because old people, women, and babies were left on the bank of a river here and told to build a town. Many died." The canned fish now produced in Salekhard is too expensive for ordinary Russians; most is exported.

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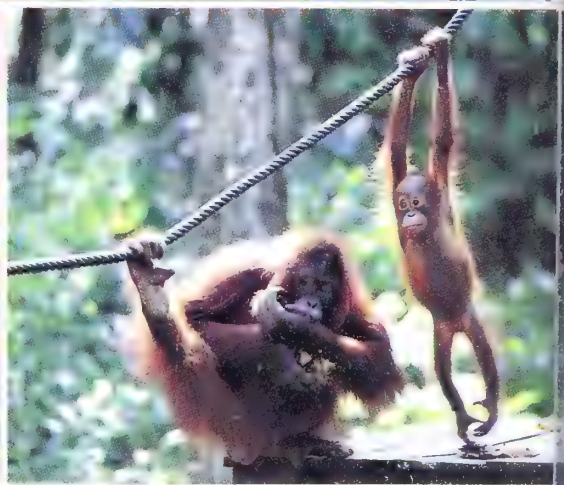
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MALAYSIA

IN SEARCH OF THE WILD MAN OF BORNEO

It was 5:30 a.m., and I was ready to hop a plane to Sandakan, gateway to the jungles of Borneo. But from the looks of the tour guide, I obviously did something wrong. "You can't wear that," said Geoffrey Leetong of Discovery Tours in Malaysia's Kota Kinabalu, a state capital on the northwest coast. "My cousin will be very angry." I looked at my clothes. What could be so offensive about khaki pants and a red T-shirt? And who was this guy's cousin anyway?

I was heading for the Sepilok Orangutan Rehabilitation Center, which helps orphaned orangutans regain the survival skills needed to return to the wild. Despite the torrid climate, I was told to wear long pants to protect against "creepy crawlers." But what bothered the guide was the red shirt. Orangutans are attracted to bright colors. And they are drawn to red, since the center feeds them from red buckets. After changing into a neutral color, I asked Leetong whether his cousin worked with orangutans. "No," he said, smiling. "My cousin is the orangutan."

Sepilok was the first stop in a tour of Sabah, a region in northeastern Malaysia. The

four-day trip costs about \$2,000, including air fare from Hong Kong. Sabah is home to some 20,000 orangutans. It boasts 1,500 species of orchids and the three-foot-wide rafflesia, the world's largest flower. And it has the tallest mountain in Southeast Asia: 13,455-foot Mt. Kinabalu.

GOD'S TEARS. Then there's the rich jungle folklore. Only a generation or so ago, most residents lived in tribes in the interior. Today, those who have migrated to cities haven't forgotten the myths of the forest. The Crocker Range surrounding Mt. Kinabalu is said to be the body of beloved dragon buried by the chief god, Kinoinagan. The rivers nearby were formed from his tears. The orangutan, which in Malay means "forest man," was considered by locals to be a human tribesman, only wilder. Hence, the orangutan is called the "Wild Man of Borneo."

With their natural habitat lost to farming and logging, orangutans are a threatened species. The center is reha-

bilitating nearly 200 orphans. When I arrived, rangers were hauling red pails filled with bananas and buckets with milk to a treehouse called Platform A. Suddenly, baby orangutans started emerging. But all the oohs and aahs really began when the notorious Raja, a full-grown male, swung into view.

Two weeks earlier, Raja had ripped off the clothes of a hapless French tourist. As the man bolted from the park, uninjured and trying feebly to cover himself, Roland Ng, managing director of Sandakan-based S.I. Tours, walked in with a group of U.S. executives. "What a weird thing to do, walk in the jungle naked," thought Ng, who says he comes from a long line of headhunters.

With Raja in mind, 10 of us made the trek to Platform B. That's where mature orangutans are sent once they show signs of fending for themselves. We hiked for 1.5 miles, holding onto ropes to scale a few steep hills. The magic moment came when orangutans started swinging from tree to tree, only feet away. But when one dropped next to me, I ran for it.

To see monkeys in the wild, I had to travel two hours from Sandakan mainly on dirt roads to Old Ben's Lodge, a cabin on stilts along

NATURE LOVER'S PARADISE: HIKING ON MT. KINABALU (LEFT), AN ORANGUTAN FEEDING WITH ITS YOUNG IN THE SABAH REGION

the muddy Kinabatangan river. Tour operators such as Chicago-based Abercrombie & Kent offer the trip and say that it's hardly first-class.

But where else can you see proboscis monkeys cooling on the banks of a river at dusk. I was whisked off in a motorboat to watch big-eyed *monyet blanda*, or Dutelan monkeys. Also scampering the treetops were the long-tailed macaque, a gray lemur with a buzz-saw series of teeth. **WIDOW'S WALK.** For a unique view of Borneo's natural beauty, there's the canopy walk on Mt. Kinabalu State Park. I wasn't sure I'd enjoy swinging 200 feet above ground. But the cables seemed firm and there were nets everywhere, so I ventured out on a narrow plank and walked along the treetops. Another trail leads to the summit of Mt. Kinabalu. Guidebooks call it an easy walk, but it's no picnic.

I was told that at their wedding, a local woman has been waiting for centuries for her husband, a Chinese prima donna, to return. In Malay, Kinabalu means "Chinese widow," and the guide says he has heard of a widow crying. All I know is there are plenty of tales to go around. And if I ever get back to Borneo, I won't be red. *Jonica Barlow*



When Entertaining at Conventions

Picture this. We have taken our best marketing show on the road to a convention. There we are, cheek-by-jowl with our competitors in the next suite, booth, or ballroom, spending much money, time, and effort as our company can afford. The object is to create such a strong impression on attendees that they'll remember us, even a week later, when they get back to their offices.

We've been planning for weeks just how we'll make our presentation, demonstrate our strong points, show how we can help our clients succeed. Now that we're here, it looks as if it may be a real challenge.

After all, a convention can create a lot of excitement. The prospects whom we hope to attract are out there meeting interesting people, reviewing old acquaintances, going to glamorous parties—and looking at lots of new ideas. How will ours stack up in the context of such a stimulating atmosphere?

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going to attract attention. So we are already on the right track, because we've done all that homework during the weeks leading up to the convention.

Once we have a winning message to offer, it's the little things that count. Nancy Kahan says in her classic hand-

book, *Entertaining for Business* (Clarkson N. Potter, 1990), that the most effective scenario for communicating our message isn't really about how much we can impress people. Instead, it's about how comfortable we can make them feel. She points out that business events such as these are harder to manage because, unlike personal entertaining, guests are often strangers, and may feel a little shy. If we try to impress them, we may just put them off.

Aim instead to delight them, suggests Kahan. "Think of surprising and pleasing people," she advises, "rather than impressing them." The final result? Prospects feel they are special to us, and that means they will think our company is pretty special, too.

True, there is no substitute for offering up

those really good ideas that conventioners will need when they get back to the office. But it doesn't hurt to serve up those ideas with a little warmth, a little humor, and maybe even with a few delightful little surprises here and there. ☺

THE AMAZON

CHAT WITH A MACAW, REEL IN A PIRANHA

Last year, more than 40,000 foreign tourists visited Brazil's Amazon, hoping to get a glimpse of the world's largest rain forest before population growth and deforestation take their toll. Most of them see only the area around the central Amazonian city of Manaus, which is a small part of the 2.6 million-square-mile river basin. Until recently, there were few excursion options for visitors to the steamy river port, apart from day-trips that included jungle walks and boat rides to the "meeting of the waters," where the chalky Amazon mixes with the dark brown Rio Negro in an ever-changing liquid mosaic.

Today, travelers can take three-day cruises on the Tunã riverboat or stay at any of a dozen rustic jungle lodges not far from Manaus. A three-day, three-night Amazon cruise on the 78-foot Tunã, with 11 double cabins and a library of books and videos, costs \$600 per person, including meals. (For reservations, call Safari Ecológico in Manaus at 5592 233-6910, or send a fax to 5592 233 3739.)

WETLANDS. Three hours away by boat is the Ariau Jungle Tower, a forest-green lodge that blends in with the surrounding vegetation. During the rainy season—January through July—when the river rises as much as 35 feet, the lodge appears to be floating; in the dry season, you can see the towering stilts that support it. When vis-

itors aren't baiting hooks for piranha to take a look at their razor-sharp teeth, or visiting fishermen's shacks, they can sit outside their rooms and watch dozens of monkeys frolicking in the trees. Or they can climb a lookout tower for a view above the forest's thick canopy. Most travelers

stay one or two nights at the lodge at \$280 a night per person (double room), including meals and excursions. (Call the Rio Amazonas agency in Manaus at 5592 232-4160, 234-7308, or send a fax to 5592 233-5615.)

Visitors can expect to see macaws, caimans, and leaf frogs in the Amazon, and if you're lucky, you'll catch a glimpse of the white uakari monkey. Sightings of larger mammals and snakes are rare. If you're interested in



A THREE-DAY CRUISE ON THE TUNA COSTS \$600. BELOW: A LEAF FROG AND A WHITE UAKARI MONKEY



wildlife viewing, consider visiting the Pantanal in central-west Brazil. This wetlands area covers 54,000 square miles—10 times the size of the Everglades.

The huge floodplains are home to more than 600 species of birds, including the rare blue-and-yellow Hyacinthine macaw, largest member of the parrot family, which can measure three feet from beak to tail. Visitors see a wide variety of mammals and reptiles, including jaguars, anteaters, and the pig-like capybaras, which peacefully coexist with large alligators around muddy ponds.

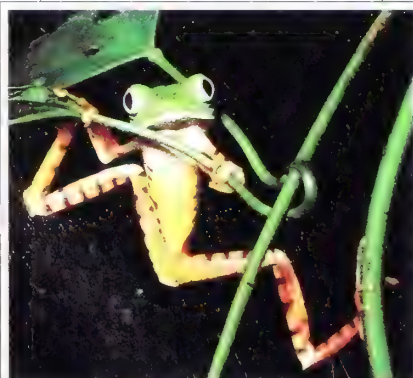
SNAKE EYES. Driving down the Trans-Pantanal highway—a fancy name for a packed-dirt road with precarious wood-plank bridges—it is common to encounter huge yellow anacondas slithering across the road. They can measure up to 33 feet long. On a recent visit, our intrepid guide leaped out of the vehicle several times, trying to grab one of the serpents. On the third try, he succeeded, holding a 14-foot, nonpoisonous snake behind its head as we gingerly stroked its smooth back.

Lodging in the Pantanal is rustic at best. Spartan fishing camps and converted ranch houses offer simple rooms that come with as many mosquitoes and spiders as traditional amenities. But the meals are hearty and include

plenty of fish plucked from the river. At nightfall, as you drink a potent lime and sugarcane rum cocktail called a *ciprinha*, you will be riveted by a low, rumbling roar coming from a nearby stand of trees—black howler monkey.

With so much wildlife on spot, the best way to tour the Pantanal is with a guide who can identify the species. Foot Tours, run by American naturalist Douglas Trent, is one of the best outfits. A five-day package including food, lodging, and ground transportation from Cuiabá, 800 miles south of Manaus, costs \$600 to \$750 per person depending on group size. In the U.S., call 612 892-7830.

Our English-speaking guide Miguel, would wake us at 4 a.m. for early-morning bird watching treks. His finely trained ear recognized more than 200 birdcalls. When we reached an area that he knew was a favorite for toucans, he played a tape-recording of their calls. As we waited in hushed silence, a half-dozen toucans flew to a nearby tree and answered. Transfixed, we watched as the brightly colored creatures preened themselves and cracked open seeds. After seeing them in the wild, it will be tough to watch their cousins in a cage back home. *Geri Sm*



YOU DON'T GO BACK TO BASICS. YOU TAKE THEM FORWARD.

There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

Nice try, guys. The simple truth is, basics are something you start with and take forward. Not retreat to.

Over the past 10 years we've become an insurance company with \$12 billion in assets under management. We've grown by embracing the ageless basics of common sense and simplicity and bringing them into a new

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The basics. By taking them forward, they've taken us forward. To where we are today, to where we'll be tomorrow.



C o n s e c o

GREAT SMOKY MOUNTAINS

LEARNING TO PADDLE YOUR OWN CANOE

My first paddle down the Nantahala River ended in disgrace. Crouched in a 13-foot solo canoe, I blew the turn into an eddy above Nantahala Falls, spun around in the rushing current, tumbled backward over a three-foot drop, and—sploosh—swamped.

But oh what a difference four days can make. After a few classes at the Nantahala Outdoor Center (704 488-6737), I breezed through the same stretch of white water and then merrily carried my boat back upstream for a second run.

The center is a first-rate place to limber up neglected muscles, escape workaday worries, and polish your paddling skills. Nestled in the Great Smoky Mountains of western North Carolina, it's North America's premier white-water paddling school. Talented canoeists and kayakers, some of them Olympians or former national champions, teach classes on a half-dozen world-class rivers, all within driving distance of the center. The food at Relia's, the center's own restaurant, is wonderful and eclectic. And accommodations, although rustic, are quite comfortable.

NOVICES WELCOME. The center offers something for all skill and condition levels. You can choose anything from a one-day canoe or kayak sampler to intensive, week-long advanced classes. Special courses cater to children, women, the over-40 crowd—even "tentative kayakers." The center is also expanding into sea kayaking. The school supplies all gear: boats, life jackets, wet suits, and the like. And if you have kids in tow, it offers day care for paddling parents.

My five-day intermediate canoe class had just three stu-

dents; maximum class size is 12, with two instructors. My teacher, a recent Oberlin College grad named Dan House, was both patient and skillful at imparting his knowhow. He and other instructors spent

ple. Visitors can choose a converted roadside motel, communal cabins, or a bargain bunk-house arrangement. Often, you share rooms and bathrooms with other classmates. The cabin I stayed in had a cheery common area and a nice deck. But a rank, mildewy odor permeated the small bedroom—no doubt from the moist air and steady parade of damp paddlers.

The eclectic staff of about 350 is part of what makes a visit here so delightful. Some

through a stock purchase plan.

Paddling at Nantahala won't break the bank—unless you hang out too much at the well-stocked outfitter's store. Weekend courses run \$20, including meals and lodging. The "frugal floater" option, sans food and roof, costs \$15. A seven-day course is \$95. Before Apr. 14 or after Labor Day, a 20% discount applies. That's a good option, since you avoid the summer traffic jam of rafters. Private instruction for one to five people runs \$170 to \$375 a day, depending on group size and time of year. You get discounts if you provide your own gear.

The center is just two-and-a-half hours' drive from either Knoxville, Tenn., or Chattanooga and three-and-a-half hours from Atlanta. Or you can fly to Asheville, N.C., and then drive to the center, an hour-and-a-half away.

RIO BRIO. If you yearn for more exotic paddling diversions, the center offers a dozen adventure travel packages. They combine instruction with exploration of far-flung places. Advanced paddlers can still tackle Chile's challenging Rio Bio-Bio, which will be dammed up in just a year or two. A 13-day trip runs \$2,250, plus airfare. Beginners and intermediate paddlers can navigate Costa Rican rivers for seven days (\$1,200, plus airfare) or the Rio Grande along the U.S. border with Mexico (\$800, plus airfare).

Me, I've still got a few scores to settle back at the center. There's a "surfing wave" on the Nantahala, which chewed me up and spit me out, and Bull Sluice on the

Chatanooga, a few some pair of thundering five-foot drops with "decapitating rock" right in the middle. I opted to walk around that baby. I paddled my boat—and made it look so damn easy.

David Woodruff



MASTERY IN MOTION:
INSTRUCTOR DAN HOUSE OF
THE NANTAHALA CENTER
GOES OVER THE EDGE

up to 14 hours daily with students, starting with breakfast at about 7:30 and ending with an evening "chalk talk."

We paddled beautiful rivers. My favorite, the relatively unspoiled Chatanooga, is in northern Georgia. At places, the clear water rushes through narrow rock canyons and over ledges or mellows out in flat, tree-lined stretches. It provided the week's biggest adrenalin rush: paddling over a six-foot vertical drop.

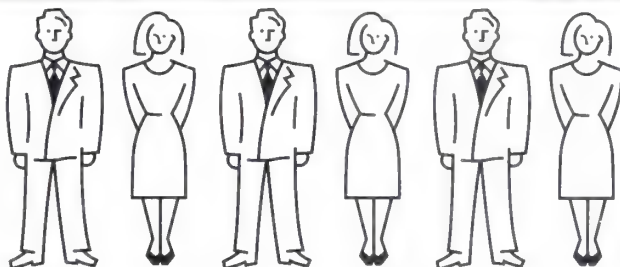
Accommodations are sim-

of the staff are freewheeling adventurers who work seasonally. But there's also a core group of year-rounders, many of whom dropped out of traditional careers to live a simpler life. Payson Kennedy, who helped found the center in 1972, was formerly head of data processing at Georgia Tech's library. Bunny Johns, a vice-president, gave up a career in plant physiology research at North Carolina State in Raleigh. And many instructors are part-owners of the company

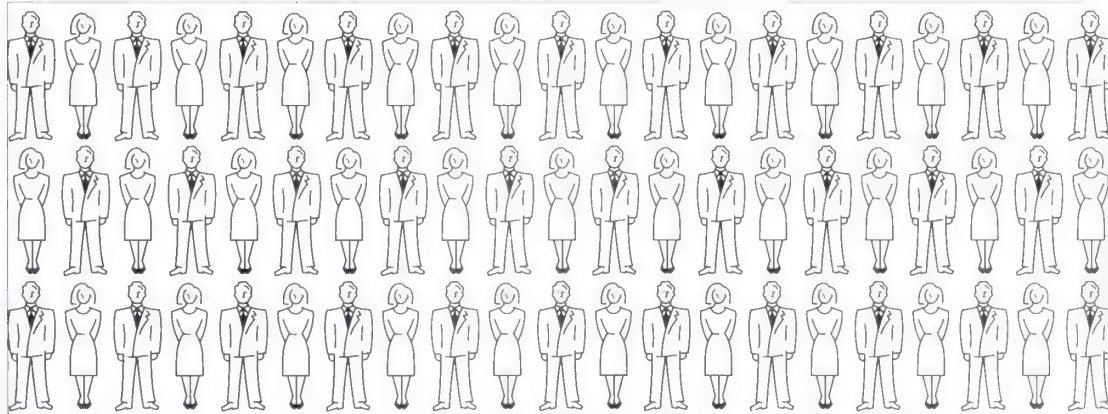




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World Wildlife Fund  www.wwf.org.uk

Index to Companies

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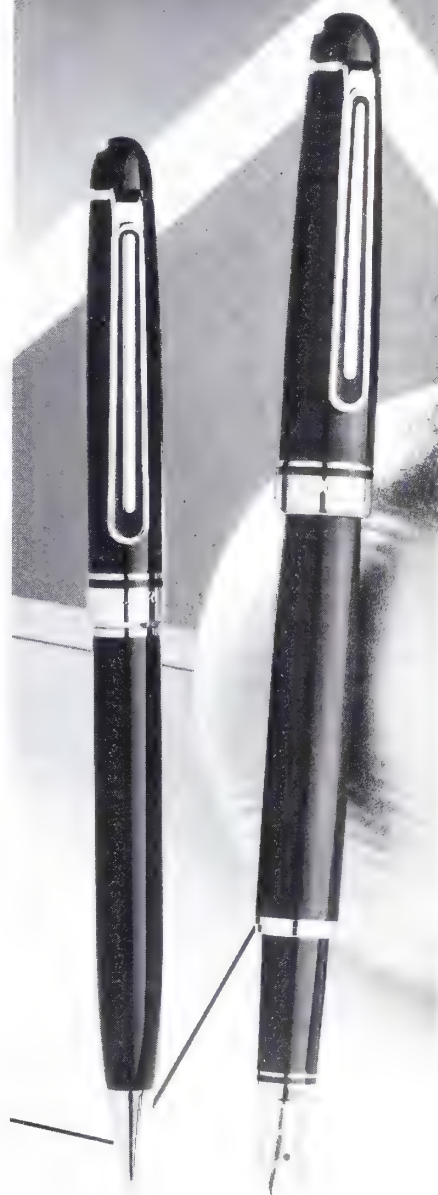
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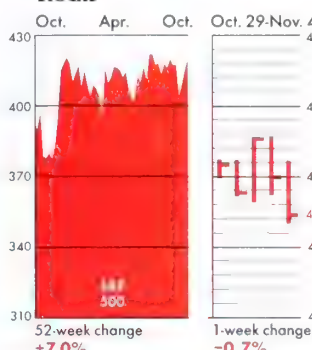
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Investment Figures of the Week

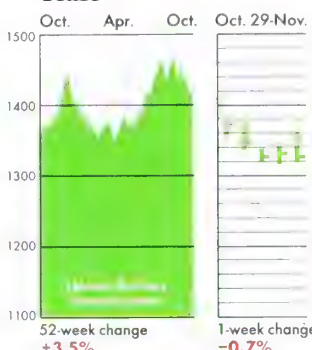
COMMENTARY

For spending weeks bracing for Clinton victory, stock and bond investors—who usually prefer Republicans—reacted with restraint. Nov. 4, the Dow industrials dropped 29 points, just less than 1 percent. After an early rally, bond prices slipped, too, and both short- and long-term interest rates edged upward. Small company stocks bucked the downtrend, with Russell 2000 finishing the week with a gain of 0.9%. Word is that Clinton economic plan would benefit small companies.

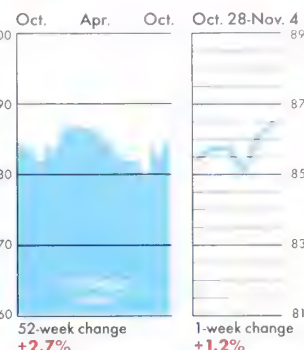
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change	
		Week	52-week
DOW JONES INDUSTRIALS	3223.0	-0.9	6.1
SMALL COMPANIES (Russell 1000)	222.0	-0.4	8.0
MID-CAP COMPANIES (Russell 2000)	199.6	0.9	8.2
LARGE CAP COMPANIES (Russell 3000)	236.5	-0.3	8.0

FOREIGN STOCKS

	Latest	% change (local currency)	
		Week	52-week
DOW JONES (FINANCIAL TIMES 100)	2691.7	1.6	6.2
DOW JONES (NIKKEI INDEX)	17,065.2	0.0	-31.1
DOW JONES (TSE COMPOSITE)	3344.8	0.3	-5.3

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.08%	3.01%	4.74%
30-YEAR TREASURY BOND YIELD	7.69%	7.61%	8.01%
S&P 500 DIVIDEND YIELD	2.95%	3.02%	3.16%
S&P 500 PRICE/EARNINGS RATIO	22.4	22.4	21.6

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	414.5	414.4	Positive
Stocks above 26-week moving average	47.2%	42.7%	Neutral
Speculative sentiment: Put/call ratio	0.40	0.44	Neutral
Insider sentiment: Vickers sell/buy ratio	1.73	1.73	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change	
	4-week	52-week
TELECOMMUNICATIONS EQUIPMENT	22.4	1.8
MANUFACTURED HOUSING	19.7	16.4
TRANSPORTATION SERVICES	18.0	21.0
STEEL	17.5	10.5
MACHINE TOOLS	17.1	66.2

4-WEEK LAGGARDS

	% change	
	4-week	52-week
OIL EXPLORATION AND PRODUCTION	-8.0	-29.5
TOBACCO	-6.3	10.9
OIL WELL EQUIPMENT AND SERVICES	-5.7	-6.7
INTERNATIONAL OIL	-5.7	-4.2
COMPUTER SYSTEMS	-5.3	-23.9

Strongest stock in group

	% change		Price
	4-week	52-week	
DSC COMMUNICATIONS	38.8	216.3	17
FLEETWOOD ENTERPRISES	22.7	15.9	39 1/4
FEDERAL EXPRESS	24.2	17.8	45 1/2
NUCOR	24.9	54.3	62 1/8
GIDDINGS & LEWIS	19.7	61.5	22

Weakest stock in group

	% change		Price
	4-week	52-week	
ORYX ENERGY	-12.6	-34.5	20 7/8
AMERICAN BRANDS	-7.4	2.4	42 3/8
SCHLUMBERGER	-7.1	-8.7	62 5/8
ROYAL DUTCH PETROLEUM	-7.7	1.4	82 5/8
IBM	-12.4	-29.7	69 1/8

BRIDGE INFORMATION SYSTEMS INC

MUTUAL FUNDS

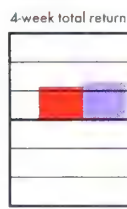
LEADERS

	4-week total return	%
AMERIS LIFETIME EMERGING GROWTH	13.4	
AMERIS WOMEN OPPORTUNITY	12.3	
AMERIS ALLIANCE TECHNOLOGY	12.3	
	52-week total return	%
AMERIS SELECT SAVINGS & LOAN	48.0	
AMERIS JAKMARK	41.8	
AMERIS MORGAN STANLEY ASIAN EQUITY	41.1	

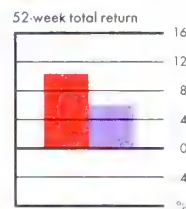
LAGGARDS

	4-week total return	%
EQUITY STRATEGIES	-9.2	
DFA UNITED KINGDOM SMALL COMPANY	-8.9	
UNITED SERVICES GOLD SHARES	-8.6	
	52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-58.4	
UNITED SERVICES GOLD SHARES	-50.3	
CAPSTONE NIKKO JAPAN	-35.2	

S&P 500



Average fund



MORNINGSTAR INC

RELATIVE PORTFOLIOS

Dollar amounts represent the present value of \$10,000 invested one year ago in each portfolio. Percentages indicate 1-day total returns.

Treasury bonds
\$11,175
-0.29%

U.S. stocks
\$11,128
+0.34%

Money market fund
\$10,314
+0.05%

Gold
\$9,525
-0.15%

Foreign stocks
\$9,318
-0.74%

DATA RESOURCES INC

Data on this page are as of market close Wednesday, Nov. 4, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

Nov. 3. Mutual fund returns are as of Oct. 30. Relative portfolios are valued as of Nov. 3. A more detailed explanation of this page is available on request.

ROLL UP YOUR SLEEVES, MR. CLINTON...

With 370 electoral votes under his belt, Governor Bill Clinton has the go-ahead to get to work on the U. S. economy. Tradition gives him a 100-day window of opportunity to put forward a program that Congress will pass. His challenge is to make every one of those days count.

Here, George Bush's bad luck is Bill Clinton's good luck. It probably cost Bush the election, but four years of tough times have reduced inflation, lowered interest rates, and forced American companies to shed workers and otherwise improve productivity. Thus, Bush has created a set of economic conditions that Clinton can use to great advantage. The new President can start the economy growing again with a greatly reduced risk of rekindling inflation, thereby avoiding the excesses that dogged the fast-growth years of the 1980s.

With the economy in a position to grow again, we urge the President-elect to keep his pledge of a new, centrist Democratic Party. That means resisting pressures for a big dollop of fiscal stimulus, making good on his promise of trimming 100,000 jobs out of the federal civil service, and appointing individuals with high credibility in the world financial markets. In this spirit, Alan Greenspan, whatever his faults, should be urged to stay on at the Federal Reserve.

In his campaign, Clinton called for limited stimulus to growth. Fine. *BUSINESS WEEK* has long supported investment stimulus of this kind. He wants a sustained investment in the infrastructure, and we agree the economy needs it. But whatever Clinton does must be consistent with his commitment to cut the federal deficit in half over four years. Ross Perot's startling performance proves that the voters want deficit reduction.

To tackle this 375 billion-pound gorilla, Clinton will need the best backup team available, and his record of picking

aides for his first-rate campaign is encouraging. So are quality names being floated in the early betting for a Clinton economic team. Robert E. Rubin, co-chairman of Goldman Sachs & Co., could be headed for the Treasury Dept., where he would be a strong proponent of a deficit-reduction program.

And if House Budget Committee Chairman Leon E. Panetta (D-Calif.) should get the tap as Director of the Office of Management & Budget, he has a little list of outdated programs that would never be missed. It's a cinch that a Clinton administration going to depend on Treasury and the OMB, where the department's Nicholas Brady and Richard Darman proved to be liabilities in George Bush's struggle to revive the economy.

Clinton must also move swiftly onto the world scene where he lacks the background he has on domestic issues. Here, too, a first-rate appointment to head the State Department can make a huge difference. Whether it's Carter Administration State Dept. veteran Warren Christopher, House foreign affairs specialist Lee H. Hamilton (D-Ind.), or someone else, the nod must go to a person with loads of experience. But the leader of the Free World sits in the Oval Office in Foggy Bottom, and as soon as Clinton takes over the Presidency, he must meet quickly with important world leaders to set about building personal relationships with them. All the backup he will have from the White House staff and State can't substitute for first-hand impressions of foreign leaders and their mettle—or lack of it.

Bill Clinton has the intelligence, instincts, and drive to be a first-rate President. There are many problems to be solved, and the all-out Clinton campaign leaves no doubt that he will throw himself into his job with boundless energy. In his first 100 days, while the honeymoon still lingers, we'd like to see him apply those formidable skills to improving the economy and—inextricably linked to the economy—the U. S. and responsibilities as a great world power.

...AND YOU TOO, CORPORATE AMERICA

Corporate profits are up, and with any uptick in the economy, the stage could be set for substantially better earnings next year. In the third quarter of 1992, earnings of the 900 companies in the *BUSINESS WEEK* Corporate Scoreboard were up 31% (page 106).

For the first nine months of 1992, corporate profits were up 19%, compared with a drop of 17% in the first nine months of 1991. And this was not just the result of downsizing and lower interest rates and fuel costs: Scoreboard sales were up 5% for the first nine months.

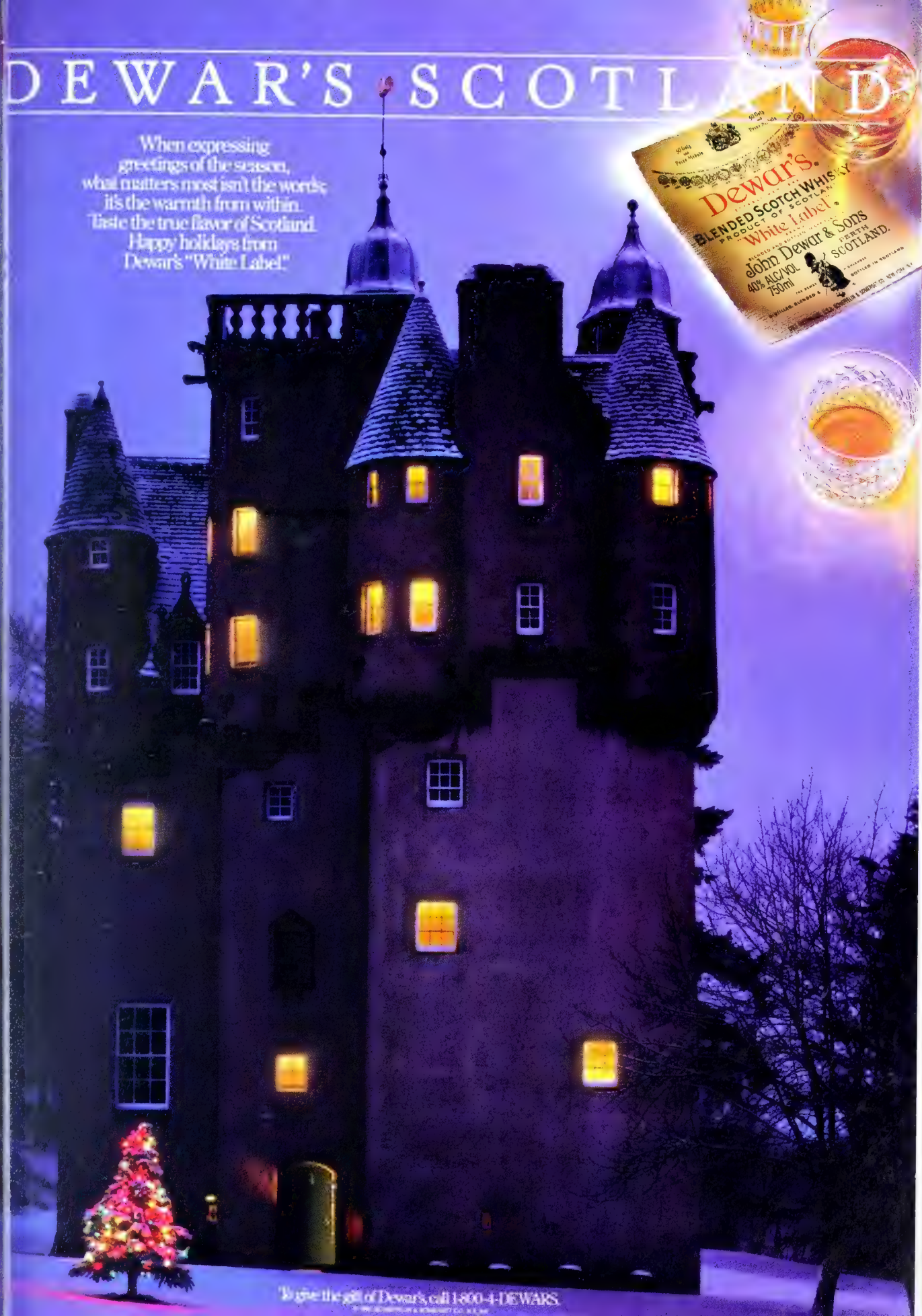
This is an impressive showing, considering the tough business climate. And since European and Japanese earnings are a disaster scene, you could argue that U. S. managers on the whole are dealing with the sluggish global economy better than their counterparts overseas. It's true that it has been painful, with lots of jobs eliminated and businesses

folded. But the bottom line is that all the restructuring, working and helping to boost U. S. productivity against foreign rivals.

That's the good news. The bad news is that many American companies also need to restructure for growth, putting new product efforts and R&D into high gear. One important new study suggests that a dollar of private R&D spending is seven times more potent in increasing the production growth rate than a dollar invested in plant and equipment. The fact is that by moving aggressively to get leaner, mean, U. S. companies have won a financial advantage over their overseas adversaries, and at a time when the dollar and labor rates are favorable. But they need to get on exploiting that advantage—which will only be temporary, and aggressive restructuring to slash costs is not followed up with stronger investment in future technologies and product

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A vibrant red coiled telephone cord is arranged in a large, nearly perfect circle, framing the central text. The cord's loops are tightly packed and have a glossy finish, reflecting light. On the right side, the cord's end is visible, showing a standard RJ45 modular plug with a yellow label.

**HOW A QUIET
TELECOMMUNICATIONS
GIANT KEEPS AMERICA'S
BELLS RINGING.**

BusinessWeek



NOVEMBER 23, 1992

A MCGRAW-HILL PUBLICATION

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RECONSTRUCTING THE COMPUTER INDUSTRY

Radical change is sweeping the computer business — with plummeting prices, vanishing margins, and ultra-short product cycles. The big



computer makers, especially IBM and DEC, are scrambling to restructure themselves. And no company, big or small, can escape from constant cost-cutting. A whole new computer industry is taking shape.

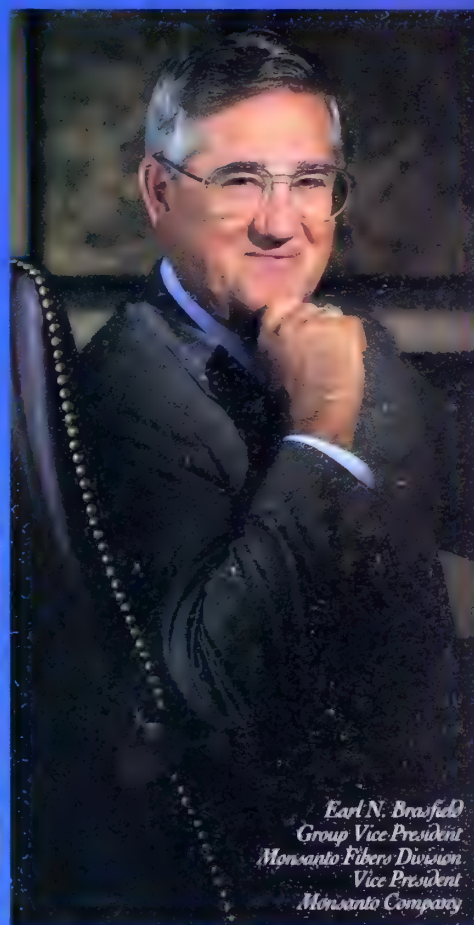
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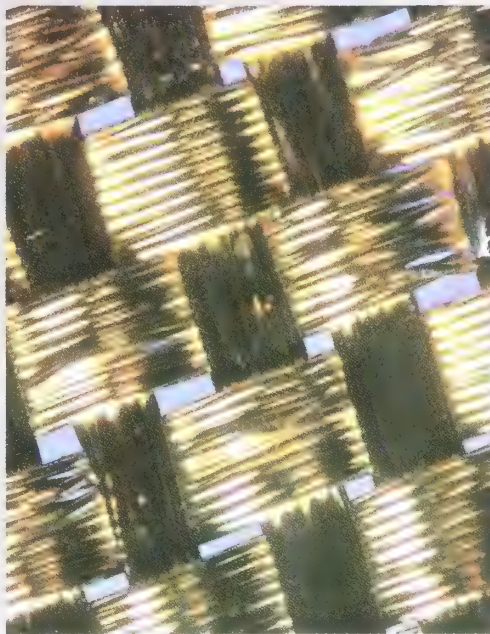


*Earl N. Brasfield
Group Vice President
Monsanto Fibers Division
Vice President
Monsanto Company*

D I G I T A L . T H E O P

DEC 11 1992

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New audible remote entry with adjustable volume control.



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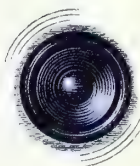
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COMPUTER MAKERS NOW BUILD LARGE MACHINES FROM COMMODITY PARTS—AND THE HARSH ECONOMICS OF PCs RULE THE WHOLE BUSINESS

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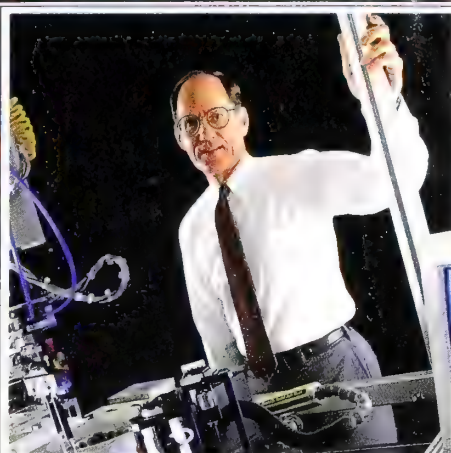
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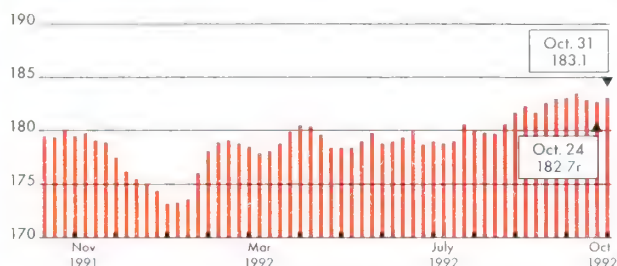
BusinessWeek Index

PRODUCTION

Change from last week: 0.2%

Change from last year: 2.0%

1967=100 (four-week moving average)



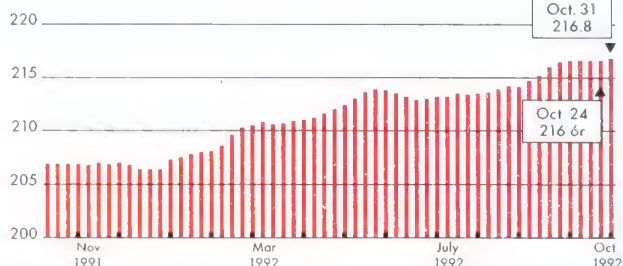
The production index increased during the week ended Oct. 31. On a seasonally adjusted basis, output levels of paper and lumber as well as rail-freight traffic rose. Auto, truck, electric power, coal, and paperboard production fell, however, and steel and crude-oil refining output were unchanged. Before calculation of the four-week moving average, the index dropped to 183.8, from a revised 184.1. In October, the index rose to 183.1, from 182.9 in September.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%

Change from last year: 4.8%



The leading index was virtually unchanged during the week ended Oct. 31. Stock prices were up sharply, and improvement in the growth rates of real estate loans and M2 were also positive. These signals were offset by higher bond yields and falling materials prices. Business failures were unchanged. Before calculation of the four-week moving average, the index rose to 217.4, from 216. For the entire month of October, the index edged up to 216.7, from September's 216.5 level.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (11/7) thous. of net tons	1,674	1,750#	-4.3
AUTOS (11/7) units	125,012	127,226r	1.8
TRUCKS (11/7) units	88,276	97,892r	10.8
ELECTRIC POWER (11/7) millions of kilowatt-hours	NA	53,921#	NA
CRUDE-OIL REFINING (11/7) thous. of bbl./day	13,539	13,576#	7.2
COAL (10/31) thous. of net tons	18,959#	19,205	-2.2
PAPERBOARD (10/31) thous. of tons	799.0#	809.3r	0.1
PAPER (10/31) thous. of tons	804.0#	792.0r	0.2
LUMBER (10/31) millions of ft.	485.6#	476.5	-1.9
RAIL FREIGHT (10/31) billions of ton-miles	22.1#	22.0	6.3

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WPPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (11/11)	124	123	130
GERMAN MARK (11/11)	1.59	1.57	1.63
BRITISH POUND (11/11)	1.52	1.54	1.77
FRENCH FRANC (11/11)	5.36	5.31	5.58
CANADIAN DOLLAR (11/11)	1.27	1.25	1.13
SWISS FRANC (11/11)	1.43	1.40	1.45
MEXICAN PESO (11/11)	3,122	3,110	3,072

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (11/11) \$/troy oz.	331.150	337.800	-7.1
STEEL SCRAP (11/10) #1 heavy, \$/ton	89.00	89.50	-5.3
FOODSTUFFS (11/9) index, 1967=100	199.5	197.1	-2.5
COPPER (11/7) c/lb.	104.2	105.0	-6.2
ALUMINUM (11/7) c/lb.	52.6	53.3	-1.5
WHEAT (11/7) #2 hard, \$/bu	3.65	3.56	-2.4
COTTON (11/7) strict low middling 1-1/16 in., c/lb	49.39	47.33	-10.5

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/6) S&P 500	419.14	419.26	7.2
CORPORATE BOND YIELD, Aaa (11/6)	8.12%	8.07%	-5.0
INDUSTRIAL MATERIALS PRICES (11/6)	96.3	96.3	0.8
BUSINESS FAILURES (10/30)	395	397r	-1.3
REAL ESTATE LOANS (10/28) billions	\$399.0	\$397.5r	-1.7
MONEY SUPPLY, M2 (10/26) billions	\$3,433.8	\$3,430.3r	1.1
INITIAL CLAIMS, UNEMPLOYMENT (10/24) thous	360	376r	-14.5

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Oct.)	183.1	182.9r	2.0
BUSINESS WEEK LEADING INDEX (Oct.)	216.7	216.5r	4.8
EMPLOYMENT, CIVILIAN (Oct.) millions	117.6	117.7	0.6
UNEMPLOYMENT RATE, CIVILIAN (Oct.)	7.4%	7.5%	7.2

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/26)	\$1,009.1	\$1,005.2r	14.2
BANKS' BUSINESS LOANS (10/28)	276.6	276.7r	-7.6
FREE RESERVES (10/28)	861r	967r	-9.9
NONFINANCIAL COMMERCIAL PAPER (10/28)	146.3	146.0	9.8

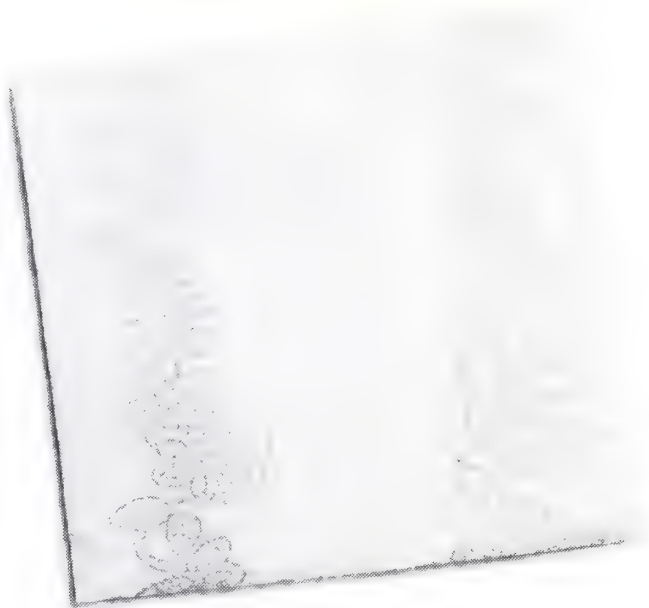
Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/10)	2.98%	3.09%	4.74%
PRIME (11/11)	6.00	6.00	7.50
COMMERCIAL PAPER 3-MONTH (11/10)	3.60	3.49	5.00
CERTIFICATES OF DEPOSIT 3-MONTH (11/11)	3.53	3.41	4.98
EURODOLLAR 3-MONTH (11/7)	3.46	3.46	5.25

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



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[†]Yield based on earnings of the fund's portfolio during the 30 days ended 9/30/92.

^{††}Assumes the 37.4% combined federal and California state income tax rate for 1992.

^{†††}Returns for the period ended 9/30/92 include the maximum 4% sales charge and assume reinvestment of dividends at the offering price and capital gains at net asset value. Investment return and principal value will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Past performance cannot guarantee future results.

*For investors subject to the alternative minimum tax (AMT), a small portion of the income may be subject to federal and state AMT.

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BEGGING TO DIFFER WITH B-SCHOOL RATINGS

Your business-school rankings in "The best B-schools" (Cover Story, Oct. 26) have a bit more substance than college football rankings—but not much. At least football teams occasionally play each other.

If you want to rank B-schools on two measures, pick the impact of the faculty on the advancement of knowledge and the career success of the graduates. Both would take a lot more work on your part, but the results would far surpass the superficiality of your current surveys.

Preston Townley
 President and CEO
 Conference Board
 New York

As students at the University of Chicago's Graduate School of Business, we were disappointed that you again ranked Northwestern University's J.L. Kellogg Graduate School of Management ahead of Chicago. Perhaps you neglected to consider our hot-selling T-shirt, "The top 10 reasons why Kellogg is for losers":

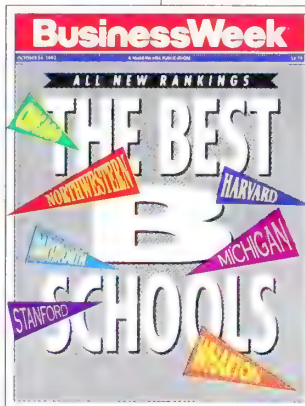
- (1) Masters of Management: fast-food diet for business lightweights.
- (2) Meet lots of nice people and learn lots of neat stuff.
- (3) Think Beta is a fraternity.
- (4) Learn how to eat Corn Flakes in marketing class.
- (5) Get toy surprise with diploma.
- (6) Favorite class: checkbook accounting.
- (7) The Rollerblade MBA: Here today, gone tomorrow.
- (8) Receive complimentary lunches at corporate meetings and think that they're free.
- (9) Question: What is a "random walk"? Answer: A dance step.
- (10) Next Nobel prize will be their first.

Don Kempf
 Jim Thomas
 Chicago

BUSINESS WEEK
 NOVEMBER 23, 1992 ***3294
 ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Domestic Telex: 127060. International Telex: 242865. Cable: McGraw-Hill New York. FAX: 710-584-4870. 1-year subscription rate: \$44.95 per year, 2 years: \$79.95, 3 years: \$99.95. Single copies: \$2.75. Write for rates and other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579.

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When I decided two years ago to take my MBA at the University of Virginia, BUSINESS WEEK said that the Darden Business School was the 14th-best business school in the nation. Naturally, I was pleased to see Darden climb to No. 11 in your latest rankings. I couldn't help but notice, however, that perhaps Darden should be ranked even higher.

Indiana, Columbia, and North Carolina were all ranked well above Darden in the corporate poll. Yet the percentage of students without job offers at graduation ranges from 15% to a staggering 22% at those schools. Darden's rate was only 9%. What's more, Darden had more offers per student (2.2, compared with 1.8-2.0) and a substantially higher starting salary than all but Columbia—which seems likely to be the result of more of its graduates taking jobs in [high-salary] New York.

Paul Thiel
 Charlottesville, Va.

Some readers may wonder why people would go to Massachusetts Institute of Technology's Sloan School of Management for an MBA: Its annual tuition (\$19,500) was the highest on your report card on the top 20 B-schools, while MIT was ranked only 13 on the list. Moreover, Sloan graduates had the third-largest outstanding MBA loan (\$36,150) when they finished.

For that, 1992 Sloan graduates had 2.9 average job offers, the second-highest on your list. But the impressive statistic was the average salary increase. Sloan graduates led the other schools with post-MBA pay 71% higher than their pre-MBA pay, vs. 57% for the 20 schools as a group.

Alan W. Katzenstein
 Larchmont, N.Y.

Using only the data from your own table, it is clear that:

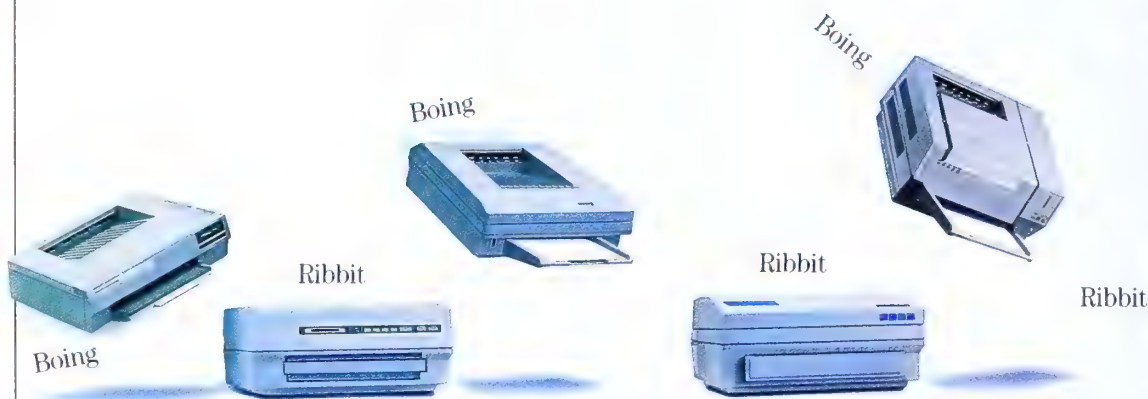
- (1) Graduates of the University of California at Berkeley's Haas School of Business make 33% more money than

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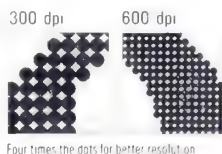
Other laser printers play leapfrog trying to catch up with the HP LaserJet.



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Thanks to a high-speed RISC processor, the HP LaserJet 4 also sets new standards

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Smoother curves, no jagged edges, thanks to Resolution Enhancement.

HP's microfine toner makes 600 dpi output look even sharper.

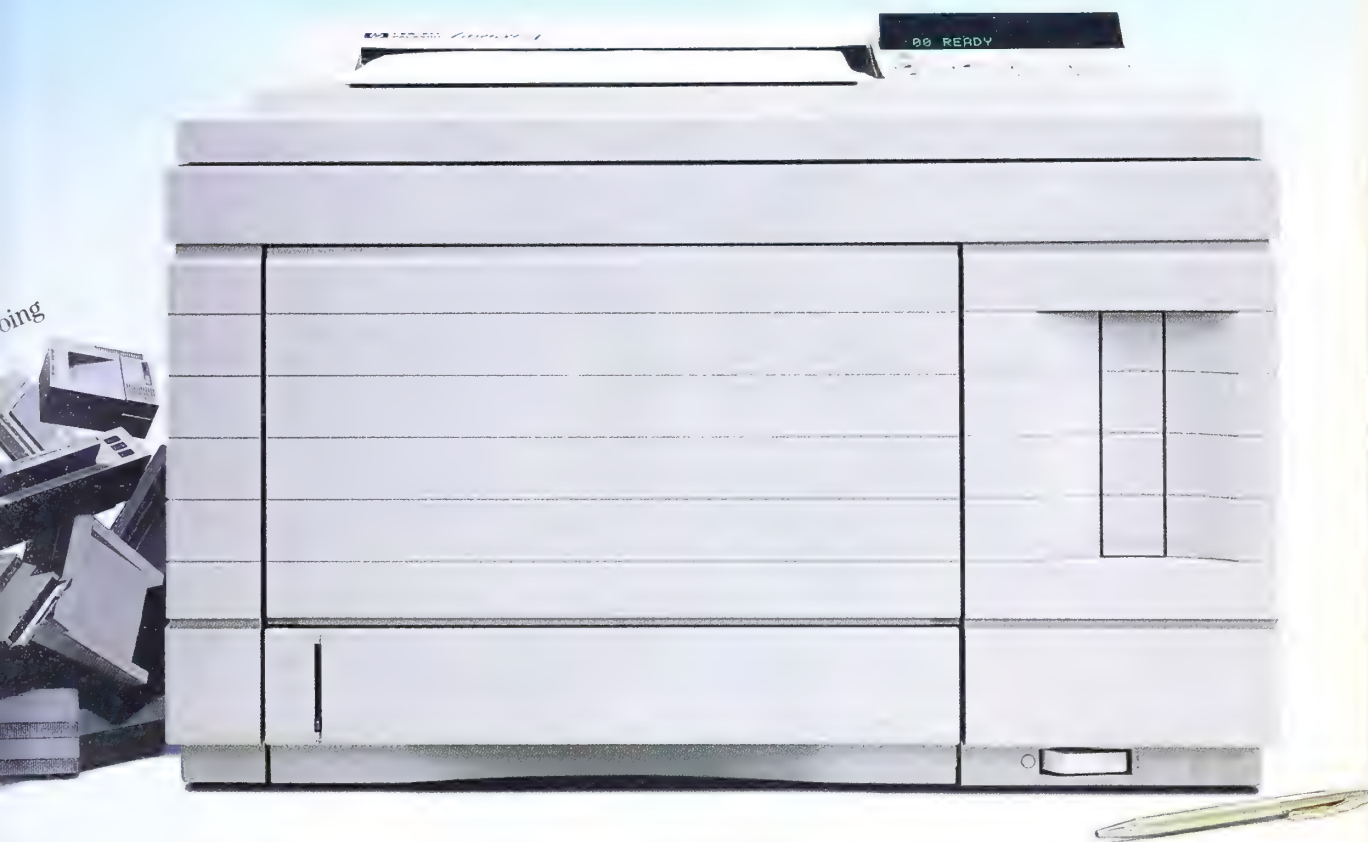
45 built-in scalable typefaces let you produce a broad range of document styles.



LaserJet

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Introducing the HP LaserJet 4. Good luck, fellas!



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aster Windows. True WYSIWYG. Windows printing, for both text and graphics, is much faster with the LaserJet 4. We use fast vector graphics and we built Windows 3.1 TrueType fonts right into the printer. This means documents print faster and that you see is *really* what you get. It's one simple, seamless operation. All you do is sit back and watch your screen document appear quickly,

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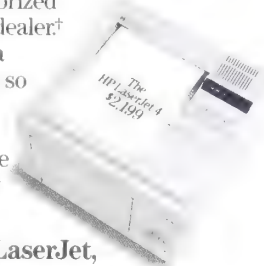
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If it isn't a LaserJet, it's only a laser printer.



**HEWLETT
PACKARD**

Readers Report

graduates of Indiana University at Bloomington's School of Business.

(2) Berkeley graduates see a 28% greater improvement in their earning power than Indiana graduates.

(3) Berkeley graduates are able to pay off their student-loan balances an average of 25% faster than Indiana graduates. (Berkeley ranks No. 1 in your survey in this respect.)

(4) Berkeley is far more selective. It admits 45% fewer applicants than Indiana (and I would be surprised if the quality of the applicant pool was not higher at Berkeley than at Indiana).

I submit that in the mind of a rational, wealth-maximizing individual, Berkeley would clearly rank way ahead of Indiana, not 10 places behind it.

Marcel Houtzager
Chicago

As a first-year MBA student at the College of William & Mary, I can tell you that I considered many of the schools on both of your lists. I applied and was accepted at several among them. But when it came time to focus on financial aid, the top 20 schools I considered didn't match up to what William & Mary offered.

It offers research assistantships and scholarships for many students, which can bring the cost of attendance to almost zero—even for an out-of-state student like myself. Figure that ratio!

The program is extremely rigorous, requiring six courses in the fall and seven in the spring of the first year. Largely case-oriented, the faculty is concerned with preparing us for the working world. Perhaps best of all, the small size of the program ensures a personal touch many other programs can't offer.

Gregory A. Dawson
Williamsburg, Va.

Carnegie Mellon's Graduate School of Industrial Administration (GSIA) is correctly identified as an institution undergoing change. Unfortunately, your report mentioned only the destabilizing effects of our transition.

Our new dean, Robert Sullivan, is building on the program's strengths and instituting change. Current students support the dean's efforts and are actively involved in improving the program via curriculum, grading, ethics, and other advisory groups. Examples abound of GSIA's existing strengths and recent improvements. To name a few:

The widely copied "mini-semester" system, originated at GSIA in 1970, enables students to take as many as 40 courses in two years.

Our small size (200 per class) permits intense faculty-student interaction.

In the new Financial Analysis & Security Trading (FAST) program, students trade portfolios utilizing live Reuters data feeds.

349 Members of the Classes
of 1993 and 1994
Graduate School of Industrial
Administration
Carnegie Mellon University
Pittsburgh

So which planet have I been living on these past few years? BUSINESS WEEK reports: "... recession-weary deans at the elite schools also found that their worst fears of an MBA job drought didn't materialize." It's like rubbing salt in my wounds!

I was on the fast track to job-related nirvana when I enrolled in the MBA program at Columbia University in January, 1990. I brought 11 years of transnational experience in the software industry to the class of 1991. Also multi-functional business exposure in engi-

WHO'S BEEN RATED MOST PROFESSIONAL FIVE YEARS IN A ROW?

ering, sales, marketing, operations, man resources, et al. An MBA looked e the natural next step that was need- to propel my career into overdrive. I graduated in May, 1991, on the an's honor list, however, without a sin- e job offer. And to date, 17 months d over 500 resumé's later, I have elicit- only two further interviews and no ! You rated Columbia fifth in corpo- e hiring preference, but it certainly not help my situation any.

Jack Nargundkar
San Diego

JAPANESE POLICY PULLED THE PLUG ON CRAY'S BID

n regards to "Why Cray's number cruncher got crunched in Japan" (Information Processing, Nov. 2), I accept the reality that, as a matter of industrial policy, the Japanese government regularly awards "competitive" contracts to Japanese firms in order to nurture critical industries. (I accept it, I don't necessarily like it.) Where they went too far is in cloaking this policy decision in a technical competitive-bid process. In the National Institute for Fusion Research (NIF) procurement, Cray Research Inc.'s offering won handily in virtually all categories measured.

CORRECTIONS & CLARIFICATIONS

In a table accompanying "A lot less moola moola on campus" (Social Issues, Oct. 5), we published incorrect data. Between 1985 and 1992, resident undergraduate tuition and fees rose as follows: University of California at Berkeley, 99%; University of Maryland at College Park, 86%; University of Michigan at Ann Arbor, 90%; University of Virginia at Charlottesville, 91%; University of Wisconsin at Madison 69%; all public universities, 69%.

A chart with "Corporate generosity is greatly depreciated" (Social Issues, Nov. 2), which tracked charity dollars, referred to corporate gifts only.

In "AT&T smacks a double" (Top of the News, Oct. 26), we should have said a Malcolm Baldrige National Quality Award was won by the Ritz-Carlton Hotel Co., based in Atlanta.

Also, the claim that Washington is practicing the same trade management as the Japanese government is patently false. Cray Research wins because we outperform the competition. That's true in Washington, Bonn, Paris, and London.

Sad that overall performance has a different value in Japan, at least in the case of NIFS.

John A. Rollwagen
Chairman and CEO
Cray Research Inc.
Eagan, Minn.

THE OLD COMPAQ HAD A LOT MORE TO LOVE THAN THE NEW

Your recent article "Compaq" (Cover Story, Nov. 2) could not have been more sickening to those of us readers who witnessed and were part of Rod Canion's building Compaq into the best place to work in the world. Under CEO Eckhard Pfeiffer, the new regime has brought back all the old management styles this country needs to get rid of to be successful.

Mistrust, fear, and disloyalty are now commonplace in the halls of a company that once went out of its way for its people.

Bret Beebe
Auburn, Ala.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax: (212) 512-4464, Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.



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To learn more about the strength in The Equitable's numbers, please write to Richard H. Jenrette, CLU, Chairman, or Joseph J. Melone, CLU, ChFC, President, at The Equitable, 787 Seventh Avenue, Dept. A, New York, NY 10019.

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GENIUS: THE LIFE AND SCIENCE OF RICHARD FEYNMAN

By James Gleick

Pantheon Books • 532pp • \$27.50

BONGO DRUMS, QUANTUM LEAPS, AND THE NOBEL PRIZE

In the summer of 1986, I was in Cambridge, Mass., to write about Thinking Machines Corp., a small company hoping one day to build a superfast computer that would be able to "think." As I chatted about technology with three software engineers, a craggy-looking man, who I later learned was Nobel physics laureate Richard Feynman, walked into our circle and began discussing what it meant to think and whether a machine could actually do it. Intelligence, he mused, was a matter of creativity, not just analytical ability. A machine could probably never approximate the brain's capabilities, but the notion was intriguing. After that brief exposition, the man abruptly walked off to stare out the window at the Charles River. I remember wondering at the time, who is that guy?

Now I know, thanks to James Gleick's engaging biography of the legendary physicist, who died of cancer in 1988. Drawing on an array of sources—Feynman's private papers, interviews with family and friends, a thick FBI file, the work of other scholars, and Feynman's own best-seller, *Surely You're Joking, Mr. Feynman!*—Gleick gives a formidable account of one of the most original and idiosyncratic scientific minds of this century. Even among scientists who hate the term "genius" (unless, of course, it's applied to them), the word was permitted in connection with Feynman, says Gleick.

At the time I encountered him, Feynman was a technical adviser to Thinking Machines. He had just completed his work on the Rogers Commission, which investigated the explosion of the space shuttle Challenger. He demonstrated then, as he often did, an innate ability to slash to the heart of a problem. In the case of the shuttle, the problem was the rubber O-rings that were supposed to keep hot gases from escaping the Challenger's boosters. It turned out that the rings lacked resilience at low temperatures—and the shuttle was launched in

frigid weather. At a televised press conference, Feynman illustrated what had happened by dipping a small piece of rubber in ice water, then snapping it like a twig. "I believe this has some significance for our problem," he deadpanned.

Feynman's demonstration annoyed some fellow panel members, largely because he seemed to be playing to the cameras. But Feynman was always a bit of a showman, and certainly the antithesis of a nerdy scientist. He played bongos, seduced his colleagues' wives, frequented topless bars, experimented with

a not-extraordinary 125. As a child, he built a device to rock his baby sister's crib, and he also used to boil water by running 110-volt house current through it. He liked to watch the blue and yellow lines of current in the water as the electricity broke up.

Such childlike curiosity appears to lie at the heart of Feynman's genius. Physicist Paul Olum once mused that when Feynman wanted to know what an electron would do under given circumstances, he merely asked himself: "If I were an electron, what would I do?" Similarly, it was Feynman's curiosity about how a knife can be sharp if its atoms are always "jiggling" that led him to look into the forces that cause atomic particles to simultaneously attract and repel one another.

In 1965, Feynman won the Nobel prize in physics for a radical reformulation of quantum mechanics known as quantum electrodynamics. He shared the prize

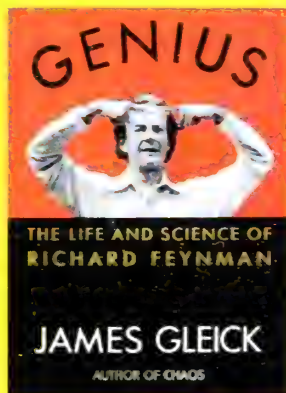
with two other scientists who had come up with similar theories at about the same time—the late 1940s. But other physicists thought Feynman's version was by far the easiest to use and the most powerful. And his "Feynman diagrams" made it possible to picture particle interactions. Gleick suggests that at least three other Feynman projects were worthy of a Nobel.

Various episodes in the book show that Feynman, like many scientists, had a deep disdain for what he regarded as the intellec-

tually "soft" fields of psychiatry and philosophy. Yet he comes across as something of a philosopher himself. "He believed in the primacy of doubt," Gleick writes, "not as a blemish upon our ability to know but as the essence of knowing. The alternative to uncertainty is authority, against which science has fought for centuries."

Before he died, Feynman worried that some future biographer might portray him either as a bloodless intellectual or as a bongo-playing kook. To his credit, Gleick captures both extremes of this outsized personality. In the end, it's easy to admire Feynman, but a bit more difficult to like him. Like Einstein before him, Feynman seems, to some degree, to have been a prisoner of the brilliance that set him apart. When a reporter pressed him to describe briefly the work that won him a Nobel, Feynman snapped: "Listen, buddy, if I could tel-

An engaging
biography of one of
the most idiosyncratic
scientific minds
of this century



hallucinogens, and, just for fun, picked safes at Los Alamos, where he helped develop the atom bomb in the 1940s.

In his previous book, the best-selling *Chaos*, about the study of chaotic behavior in physics, Gleick managed to communicate arcane scientific material in a fairly painless and entertaining fashion. He accomplishes the same feat here, helped in large part by Feynman's offbeat personality, which enlivens a book covering topics that some readers—especially those without a scientific bent—might consider heavy intellectual lifting.

Gleick takes a straight trajectory through Feynman's life, starting with his Jewish upbringing in New York's Far Rockaway section. At times, Gleick tells us more than we need to know: We learn that Feynman walked early but talked late and that he was awkward with girls. But some tidbits are illuminating. Interestingly, Feynman's IQ was

...in a minute what I did, it wouldn't be worth a Nobel."

BY MARK LEWYN

Lewyn covers technology issues from BUSINESS WEEK's Washington bureau.

OK BRIEFS

THE WAY WE NEVER WERE: AMERICAN FAMILIES AND THE NOSTALGIA TRAP

Stephanie Coontz

BasicBooks • 391pp • \$27

WARD AND JUNE—NOT

When politicians this year bemoaned the demise of the "traditional" family, who, exactly, were they talking about?

Was it the *Leave It to Beaver* household, in which dad ruled, rewarding a compliant homemaker-mom with Hotpoint appliances? No way, says Stephanie Coontz in *The Way We Never Were*.

In 1960, one in three American children was poor, and 60% of the elderly had incomes of less than \$1,000. From 1944 to 1955, illegitimate births jumped 80%.

Forget the happy Victorian families seen on Christmas cards, indulgent Papa and adoring little ones at Mama's knee. That knee was usually bent in health-tattering housework, while the kids lured to put food on the table. There

were lots of them, too, even though an estimated one-third of pregnancies were aborted. Birth control was illegal. Sex with little girls was not: The age of consent, Coontz says, was as low as nine.

The Revolutionary era? Wrong again. Slaves and paupers had no rights to their children. Every third colonial bride was pregnant. By now, you're getting the picture: There never was a traditional American family.

Following a lengthy account of how things weren't, Coontz strikes down many beliefs about today's families. Patchwork kids, for instance, are often more responsible and self-disciplined than their peers whose moms stay home. Unfortunately, Coontz imparts her message with mind-numbing prose. Example: "While [the 1920s'] increase in youthful premarital coitus was not as dramatic as that in the 1960s, there was pronounced eroticization of noncoital relations and a greatly liberalized definition of what kinds of physical interactions were permissible between unmarried persons of the opposite sex." No great to Madonna's *Sex* here.

New family traditions and social obligations are needed to deal with societal ills, Coontz writes, but she doesn't say what or how. Absent more solid suggestions, Americans may one day look back with nostalgia on the "traditional" American family of the 1990s.

BY SANDRA D. ATCHISON



If you'd like to know more about how we charcoal-mellow Jack Daniel's here in Tennessee, drop us a line

IT TAKES A SHARP SAW to make a smooth whiskey.

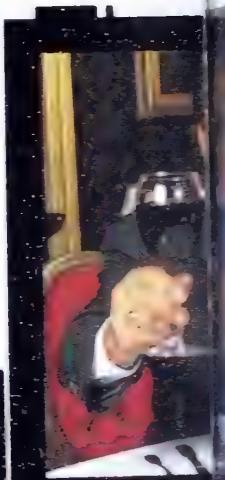
You see, unlike bourbons, Jack Daniel's Tennessee Whiskey goes through a step called charcoal mellowing. We seep our whiskey—drop by drop—through room-high mellowing vats of finely-tamped charcoal. To fill just one of these vats with charcoal, our sawyer will cut enough hard maple wood to stack 32 ricks, seven feet high. Then, he'll do it all over again. No doubt, charcoal mellowing is hard on our saw and our sawyer. But it sure makes things easy on our drinkers.

SMOOTH SIPPIN' TENNESSEE WHISKEY



Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352
Placed in the National Register of Historic Places by the United States Government.

DO YOU KNOW ME?





My father had a saying, "Anyone who says they never had a chance never took a chance." With that in mind, my partner and I started The Sardine Factory with \$960 and a cheap space up a staircase on the wrong side of the tracks. All the right ingredients for a smashing success.

yesterday are the mediocre restaurants of today, and they'll be out of business tomorrow unless they keep changing and keep evolving with their customers.

I think American Express has the same kind of philosophy—they're going to do what it takes to keep the seats filled here.

I'VE ALWAYS BEEN PREPARED TO EAT MY LOSSES.
(OF COURSE A NICE SAUCE ALWAYS HELPS.)

We were young, we worked hard, and some nights we even slept there.

The way I see it, we haven't got a choice but to gamble on something new and exciting. If you're in the restaurant business, you've got to keep changing with the times. The great restaurants of

And I think that overall, American Express customers are by far the higher profile customers for fine dining. They're sending me people who appreciate that I go out on a limb. After all, that's where the fruit is.

Ted Balestreri
Co-Founder, The Sardine Factory
Monterey, California



Don't Leave Home Without It.



THE PACT CLINTON SHOULD MAKE WITH THE FED

BY ROBERT KUTTNER



As the new President walks the tightrope between firing up the economy and keeping the markets calm, he will need steady support from Greenspan & Co.

Bill Clinton must devise an economic strategy that ignites a recovery, enlists the help of the Federal Reserve, and doesn't unduly scare the money markets. Given the overhang of a \$290 billion deficit, this tightrope act seems well-nigh impossible. A stimulus program would necessarily rely on increased government borrowing. To money markets, that signals inflation and falling bond and stock prices. In the two-stage scenario increasingly popular among economists, Clinton could offer a sort of Gramm-Rudman III—an automatic deficit-reduction formula to be triggered by higher growth. But the jaded money markets have seen such triggers before, notably Gramm-Rudman I and II. They never quite fire.

What to do? If Clinton errs on the side of excess stimulus, he could panic the money markets. The fragile markets are already primed for a blowout—which would be blamed, however unfairly, on the new President. Conversely, if he errs on the side of excessive prudence, he will be blamed for continued stagnation.

CHRONIC WOES. Clinton must begin by enlisting the support of the Federal Reserve. Only if the Fed chooses to be a prisoner of the money markets will Clinton be such a hostage, too. Chairman Alan Greenspan, like Paul Volcker before him, has the power to help the Chief Executive—or ruin him. As a pragmatist, Greenspan may want to work with the new team. Alternatively, as a longtime Republican loyalist, Greenspan, 67, may wish to step aside. Either way, Clinton needs the Fed in his corner from day one.

The economy is suffering not just from a business-cycle recession but from chronic depressed growth—a “contained depression,” in the words of economists S. Jay Levy and David Levy. It is also suffering the aftereffects of the 1980s—a high debt load, weakened banks—as well as the depressive impact of conversion to a peacetime economy and of corporations shedding employees in a race to cut costs. Unlike the stagflation of the late 1970s, today's maladies distinctly do not include inflation. That gives the Fed a lot of room to continue easing monetary policy.

In this climate, with private investment depressed, there is certainly room for more fiscal stimulus, initially targeted to public investment. For its part, the Federal Reserve should worry more about recovery and less about money-market jitters. At some point, higher growth could arguably invite some “crowding out” and inflationary pressure. But the time to cool the economy would be then, not now.

To begin with, Clinton and Greenspan

should agree to a long-term compact of low inflation and low real interest rates. Unlike Bush, who presided over divided government and fiscal gridlock, Clinton will have the broad backing of Congress. If Clinton is shrewd, he will line up Greenspan, the House and Senate leadership, and—why not?—Paul Tsongas and Ross Perot for good measure, and jointly commit to a solemn compact of recovery now, long-term low interest rates, and gradual deficit reduction when growth returns.

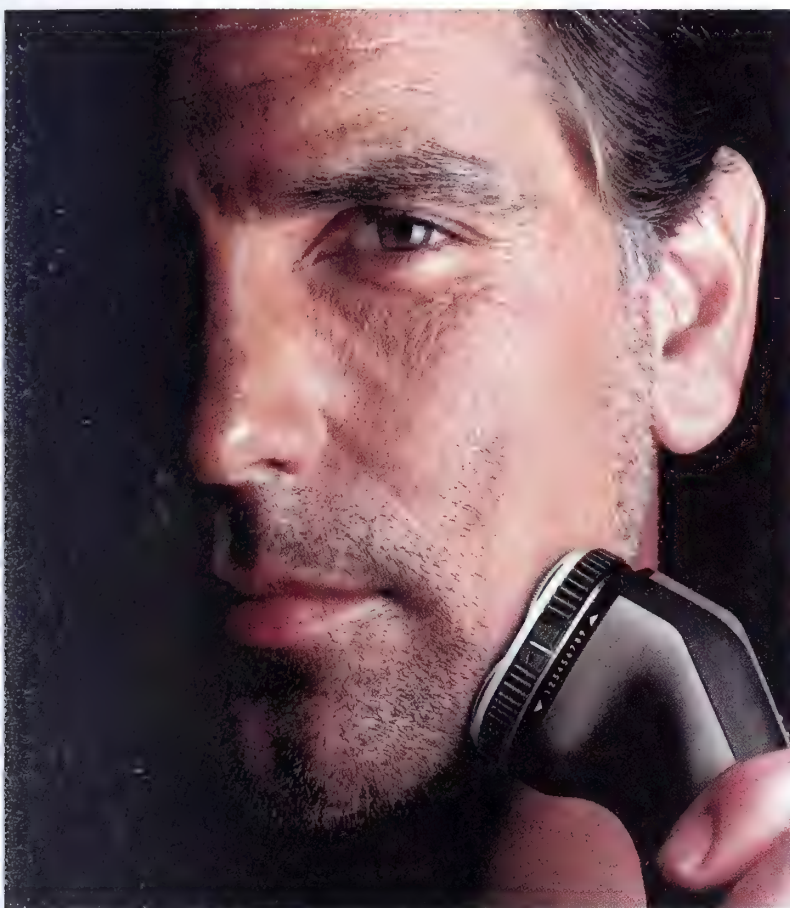
NEW FACES. But what if the money markets still sniff inflation and bid up rates? The Fed likes to insist it lacks the power to affect long-term interest rates. But that view is far too modest. Several studies have shown that the yield curve—the relationship of short-term rates to long-term rates—is not much different from its typical shape at this stage of a business cycle. Short-term rates are disproportionately lower than long rates just before a recovery takes hold. The real problem today is not the gap between short- and long-term rates; it's that rates are too high generally. If the Fed keeps easing, long rates will come down, too.

If a fearful or irrational bond market tries to bid up long rates, the Fed and the Treasury Dept. do have ways of counteracting it. They have resisted, not because such intervention is technically unfeasible, but because it is ideologically unfashionable. One strategy, commended by Nobel laureate Robert M. Solow of Massachusetts Institute of Technology, would have the Treasury (through its mix of maturities) and the Fed (through its open-market operations) make 30-year bonds more scarce. That would raise the price of such bonds and lower their effective yield. Another tactic, long proposed both by fellow Nobelists Milton Friedman (conservative) and James Tobin (liberal), would have the Treasury issue some bond indexed for inflation. This would guarantee a real fixed return and squeeze out the “inflation premium” that wary investors demand for lending long.

If all present members of the Federal Reserve Board of Governors serve out their terms, the board will stay in Republican hand well into the '90s. Several, however, are making noises about wanting to go elsewhere, especially now that a Democrat is in the White House. Hence, a majority could be Clinton appointees early in his term. How Clinton handles the delicate business of stimulating a recovery, winning the Fed to his cause, and reassuring (but not pandering to) the money markets will be the first big test of his Presidency. It could well determine whether his economic program succeeds or fails.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ FAIRE

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Economic Trends

BY GENE KORETZ

A '70s BABY BOOMLET MAY GIVE CLINTONOMICS A BOOST

Despite record-breaking deficits and steep declines in short-term interest rates, the U.S. economy continues to crawl forward by fits and starts. Indeed, not a few political pundits believe Bill Clinton's victory may prove to be a hollow one, as the comatose economy remains as unresponsive to Clintonomics as it has been to the fiscal and monetary stimulants already administered.

Economist Richard F. Hokenson of Donaldson, Lufkin & Jenrette Securities Corp. rejects such pessimistic prognoses. By this time next year, he says, "the economy should be in a solid recovery—one that should last at least for another three or four years."

In Hokenson's view, the force that will propel the economy upward will not result from new policy initiatives but from demographic trends ordained two decades ago. Specifically, a baby boomlet

vehicle sales accelerated sharply. Similarly, in 1986, the year in which the most Americans in history turned 25, housing starts hit their peak for the decade and motor-vehicle sales soared to an all-time high.

As Hokenson sees it, the decline in the number of people turning 25 since 1986 has exacerbated the slowdown and subsequent recession, putting additional downward pressure both on housing starts and auto sales. But by the same token, the surge in 25-year-olds should add considerable zip to the recovery from late 1993 through 1996.

"Though the number of 25-year-olds will shrink rapidly after 1996," says Hokenson, "favorable demographic trends will make Bill Clinton's job a lot easier in the years immediately ahead."

HOW TAX INCENTIVES COULD TRIM THE JOBLESS RATE

Changing the way unemployment-insurance taxes are levied on employers could cut the national jobless rate in a recession by up to a percentage point. That's the finding of David Card and Phillip Levine in a new National Bureau of Economic Research study.

The two economists note that in most states unemployment-insurance taxes paid by individual employers are determined at least in part by the employers' past layoff records. But this practice, which is called "experience rating," varies widely from state to state. Some states use complete experience rating, whereby the unemployment-insurance taxes paid by an employer are tightly linked with past jobless benefits drawn by its employees. In such states, companies with high past-layoff rates pay a lot more in taxes than those with low rates. In other states, past experience plays little or no part in setting an employer's insurance taxes.

Card and Levine analyzed the experience of five industry groups in 36 states from 1979 to 1987. Not surprisingly, they found that employers in states with complete experience rating had the lowest layoff rates. Apparently, the threat of higher insurance-tax levies made companies think twice before temporarily laying off workers. By contrast, employers located in states where their insurance taxes bore little or no relationship to their layoff records exhibited relatively high layoff rates. In other words, such employers were a lot more inclined to put workers on temporary furlough.

The analysis implies that adopting full experience rating in all states would

benefit many employers and workers. By forcing some employers to bear more of the costs of their own layoff policies, it would lower the tax burden on other employers that currently subsidize high-layoff companies. And it would cut temporary unemployment appreciably during recessions and seasonal slowdowns.

ARE HEAVY TRUCKS LEADING THE RECOVERY CARAVAN?

Kee your eye on sales of heavy trucks, advises economist Anthony Vignola of Kidder, Peabody & Co. He notes that real business outlays on trucks have jumped at an 18.3% annual rate so far in 1992—the only category of capital spending except information-processing equipment that is in the plus column this year.

Significantly, the rise in truck sales coincides with a surge in trucking activity, with the volume of goods shipped up by 14% so far this year and 27% since 1990. Although changing inventory practices and increased trade with Canada and Mexico are bolstering trucking, Vignola thinks the gains posted by this highly cyclical industry also point to a quickening economic recovery.

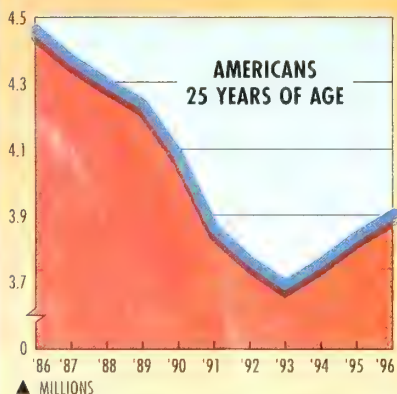
MORE OF BUSINESS' BILLS ARE IN THE 'OUT' BOX

Another positive omen is the speed with which business is paying its bills. According to Dun & Bradstreet Corp., companies' bill-paying performance edged higher last quarter, continuing an upturn that began in late 1991.

D&B's payment-performance survey, based on the bill-paying records of some 500,000 companies, indicates that the number of large companies (those with 500 or more employees) paying their bills more rapidly exceeded the number paying more slowly for the third straight quarter. And although more medium-size companies are still slowing payments rather than accelerating them, the gap is closing. Similarly, bill-paying quickened in eight of the nine regions of the U.S. last quarter.

The odd men out were small companies and companies located in the Pacific states, particularly California. Companies with fewer than 20 employees continued to show little payment improvement, and the Pacific region is now turning in the worst bill-paying performance in the nation.

THE COMING REBOUND OF YOUNG ADULTS



that occurred in the early 1970s, in the middle of the baby-bust period, will result by late next year in a three-year surge in the number of persons turning 25 (chart). And that surge will give a major boost to consumer spending.

Why focus on 25-year-olds? Hokenson says that's the age at which young adults accelerate household formation and begin to make major purchases on credit. Indeed, he points out that tracking 25-year-olds has been an "uncannily accurate predictor" of consumer-related behavior. For example, in 1972, the year in which the leading edge of the baby-boom generation turned 25, housing starts hit their postwar peak and motor-



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NOTHING AILS AMERICA THAT A FEW MILLION JOBS COULDN'T CURE

To be sure, President-elect Bill Clinton inherits a struggling economy. Despite recent stirrings in some of the data, the near-term outlook remains as uninspiring as ever. However, the new President also gets a good foundation for better times. Even without any nudge from policy, growth in 1993 is likely to end up moving a bit faster than it did in 1992.

Don't expect high gear, though. Structural barriers ranging from debt to defense to commercial real estate will block the way. But when the Bush Administration told the American people that the economy is getting better, it was basically right. The problem is that the improvement is dreadfully slow. Although economists can measure the progress, no one can feel it.

THE GAIN FROM THE PAIN OF JOB CUTS



Real gross domestic product is going to grow about 2% this year, measured from fourth quarter to fourth quarter. That will be true even if the third quarter's 2.7% pace is revised downward, as expected, and the fourth-quarter advance is lackluster. Growth in 1991 was essentially nil.

However, all of the 1992 gain will come from higher productivity. That's why real GDP will grow this year, though employment is going nowhere, as the October job data illustrate. The good news is that faster productivity growth in 1992 is helping to lay the groundwork for better business conditions—and job prospects—in 1993.

CORPORATE FINANCES ARE ON THE MEND

Getting there will be the hard part. Corporate America is still overhauling itself at the expense of Household America. Restructuring and cost-cutting are boosting productivity and profits. But lost jobs and income are retarding consumers' efforts to shore up their finances. And until corporations solve their financial and competitiveness problems, they will not be ready to expand their output, payrolls, and facilities.

Companies already have made some progress, which puts them in a better position to start hiring again next year. Productivity in nonfarm industries rose at an annual rate of 2.6% in the third quarter. During the past year, output per hour is also up by 2.6%. That's an acceleration from 1.3% for all of 1991 and no growth in 1990 (chart). That speedup resulted partly from eight straight quarters of cutbacks in hours worked. And work time was

slashed mainly through the outright elimination of jobs.

However, the gain in third-quarter productivity is a break from that trend. Last quarter was the first time in 2½ years that work time has risen—a sign that the worst of the payroll slashing might be over.

This doesn't mean that companies are ready to hire just yet, but it might explain why new unemployment claims have tapered off in recent weeks. Claims, including those filed under the Emergency Unemployment Compensation Program, fell to 384,000 in the week ended Oct. 24. That was the lowest level in two years.

For now, the biggest payoff is on corporations' bottom lines. Because companies are boosting their production efficiency as they push down the growth rate of pay and benefits, unit labor costs have slowed dramatically. They rose at an annual rate of only 1% in the third quarter, and during the past year they are up a mere 0.5%—the slowest annual pace in 8½ years.

So, even though the weak economy has hurt pricing power, inflation is still running well above the pace of unit labor costs (chart). That's why profit margins are widening, and fatter margins are lifting earnings.

Profits are also improving because of low interest rates. Interest costs as a percentage of cash flow should continue to fall into next year, because interest rates should remain low, even in the event of a modest fiscal stimulus from the Clinton Administration.

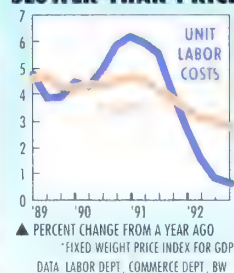
That's because the inflation outlook is the best since the 1960s. The producer price index rose a scant 0.1% in October, and excluding food and energy, the core index fell 0.1%. Last month, the annual core rate of inflation for the PPI had fallen to only 1.8%, the slowest pace in the two decades of the Labor Dept.'s record-keeping.

A DEARTH OF 'HELP WANTED' SIGNS

Although increased productivity, better profits, low interest rates, and declining inflation are the building blocks for better growth in 1993, progress will be slow. One reason: It will take time to put the labor markets back together again. Nonfarm payrolls rose by a slim 27,000 in October, but jobs fell by 72,000 in September.

Early retirements in the U.S. Postal Service plus the end of the federal summer-jobs program for teenagers caused some of the October weakness. Even excluding the

UNIT COSTS GROW SLOWER THAN PRICES



Business Outlook

government, payrolls rose by a modest 66,000 in October. Private employment has hardly budged in 1½ years (chart). Factory workers have suffered the most. Manufacturing pared an additional 56,000 jobs last month, for a total of 278,000 lost so far this year.



The jobless rate edged lower last month, slipping to 7.4% from 7.5% in September. But that came from people leaving the labor force, presumably because they don't think any jobs are available. That's a far cry from past recoveries, when the hope of work brought people out pounding the pavement.

The drive to improve profit margins means that companies are hesitant to hire new people, particularly when part-time help is cheaper. The number of nonfarm workers who could only find part-time jobs rose by 109,000 in October, to 6.2 million, and is up by 364,000 since June.

Corporate bottom lines benefit from part-time workers in two ways. Companies can quickly adjust payrolls to fit swings in demand. And businesses usually do not pay for benefits for part-timers. Benefits are rising at a much faster pace than wages.

WORKING LONGER, MAKING A BIT MORE Indeed, nonfarm pay is growing at a snail's pace. Hourly wages rose a small 0.2% in October, to \$10.65. Yearly wage growth stood at 2.4% in October, down from the 3% pace of a year ago (chart).

A longer workweek has given consumer incomes some relief from slower wage gains, though. The factory workweek rose to 41.1 hours in October, not far below its 26-year high of 41.3 hours set in May. The increase means that industrial production probably edged higher last month despite the broad cuts in jobs.

Employees elsewhere also put in longer shifts. The nonfarm workweek increased by 12 minutes, to 34.5 hours, in October. Longer work time, combined with the small gain in hourly pay, lifted weekly pay by a healthy 0.8%. That reversed a 1.1% drop in pay in September and suggests that total personal income rose in October.

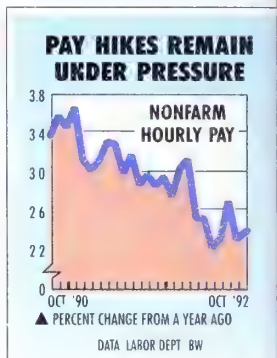
If weekly pay continues to post modest gains in coming months, rising incomes may give some cheer to retailers who are worried about the holiday shopping season. Healthy retail sales at yearend could lead to a pickup in orders, production, and jobs in early 1993.

Christmas shopping, though, will depend heavily on what cash consumers have in their wallets. That's because households are still keeping their credit cards at home. Installment debt rose \$1.6 billion in September, but that was the first advance since January.

By using credit sparingly, households have pared their level of installment debt outstanding to 16.2% of their disposable income—the lowest rate in seven years. But less borrowing means that income growth will be the key determinant of future gains in consumer spending.

Therein lies the recovery's near-term problem, which will make the path to a better 1993 feel pretty bumpy. Economic growth based solely on improved productivity—with no accompanying job growth—will not allow consumer incomes to grow fast enough to keep demand marching forward.

And businesses that focus on lowering labor costs and improving profit margins at the expense of jobs ignore a crucial rule in this consumer-driven economy: Cutbacks in one company's payrolls mean fewer customers for every one else.



THE WEEK AHEAD

INDUSTRIAL PRODUCTION

Monday, Nov. 16, 9:15 a.m.

Output at the nation's factories, mines, and utilities probably edged up by just 0.2% in October, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. The small advance is suggested by the longer factory workweek, especially in overtime, last month. Nevertheless, production declined in three of the previous four months, including a 0.2% drop in September. Weak demand, both foreign and domestic, is causing many industries to scale back output schedules. Even with the expected uptick in production, capacity-utilization rates for all industry probably stood at 78.4% in October. That's

unchanged from September, but down from 78.7% in August and 79.1% in July.

BUSINESS INVENTORIES

Monday, Nov. 16, 10 a.m.

Inventories held by manufacturers, retailers, and wholesalers were likely unchanged in September. Factories have already reported a 0.3% decline in their stock levels, and that should be offset by gains in retail trade. In August, business inventories had risen by 0.3%, led by a buildup of factory goods.

MERCHANDISE TRADE DEFICIT

Wednesday, Nov. 18, 8:30 a.m.

The MMS consensus calls for a small narrowing in the foreign trade deficit in September, to about \$8.5 billion, from \$9

billion in August. Exports, which dropped for two consecutive months, probably rebounded in September, while imports, which fell 1.3% in August, were little changed.

HOUSING STARTS

Thursday, Nov. 19, 8:30 a.m.

Housing starts likely increased to an annual rate of 1.28 million in October, say the MMS economists. That would be higher than the 1.26 million pace in September. A gain in construction employment last month, plus continued rebuilding in areas damaged by late-summer hurricanes, suggests that homebuilding picked up last month. Rising mortgage rates, however, pose a renewed danger to the tenuous housing recovery.

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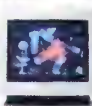
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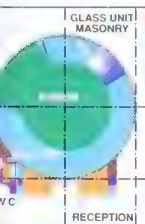
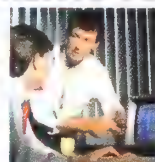
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DRAFTING A DREAM TEAM

CLINTON'S PRESIDENCY DEPENDS ON HIS PICKS

Sizing up another winning Democratic White House bid amid a sick economy, Franklin Delano Roosevelt described his mission in stark terms: "These unhappy times," Roosevelt proclaimed in 1932, "call for the building of plans." No wonder President-elect Bill Clinton—a man who loves to construct plans and 10-point programs—is so fond of FDR comparisons.

As the euphoria of his victory fades, Clinton has begun work on the difficult issues of job creation, health-care reform, and deficit reduction. The President-elect has kept the single-minded campaign focus that carried him to victory: His top priority is fixing the economy. To do it, Clinton aims to attack the nation's malaise with an assault modeled on Roosevelt's 100 days.

Getting the economy on a path to recovery in 100 days will take tact and skill. But most of all, it will require an able team. That explains why Clinton, the irrepressible candidate, is suddenly cautious in choosing who's who in his new administration. "So much rises and falls on the team we pick," says Will Marshall of the Progressive Policy Institute, a centrist think tank. "The new Presi-

dent must have people in key positions who can help him define his mandate quickly. We can't afford old-style Democrats committed to marginal adjustments in the Washington status quo."

But Clinton can't delay for long. The Arkansan soon will appoint a Treasury

Secretary and the chief of a new Economic Security Council. Clinton is intent on using these selections to show the financial markets that he will work both to stimulate growth and reduce the budget deficit. The econo-team's first assignment: setting up a two-day economic summit, tentatively planned to take place in December at the Governor's mansion in Little Rock. On the guest list: business executives, Wall Streeters, and labor leaders who will be charged with formulating what one Clinton aide describes as

CLINTONOMICS AT WORK

Here's how Clinton wants to alter the traditional model of Administration economic advisers:

ECONOMIC SECURITY COUNCIL A new creation, patterned after the National Security Council. The panel's charter: to develop and coordinate a coherent economic policy

COUNCIL OF ECONOMIC ADVISERS Watch for this group now to focus on number-crunching, not policy

OFFICE OF MANAGEMENT & BUDGET Clinton's OMB gets the job of reducing the federal work force

COMMERCE Commerce will oversee industrial and high-tech policies

TREASURY This department continues to set tax policy, guide international economic policy, and work with the Federal Reserve

DATA BW

an economic "action plan."

There's no shortage of ideas. Corporate leaders are already brimming with suggestions (page 32). The bigger challenge is fashioning discrete, sometimes contradictory notions into a coherent policy. Already, Clinton is facing conflicting demands within his party: Centrists from Clinton's Democratic Leadership



Council are arguing with traditional Democratic liberals over who gets the job of White House budget director. The centrists are angry that Alice M. Rivlin, a former Congressional Budget Office director, has emerged as a front-runner, saying they want someone who will vigorously stress deficit reduction over demands for spending on social programs. **'HANDS-ON.'** Disputes of that sort show why organizing the White House is a crucial task. And Clinton has to suppress a tendency, developed in 12 years as a governor, to try to do too much himself. "This is a roll-up-the-sleeves, hands-on manager," says transition adviser William A. Galston of the University of Maryland. "Unless he has a character

WHAT'S IN THE MOVING VAN FROM LITTLE ROCK

As Washington girds for Clinton's arrival, its denizens are playing a frantic guessing game. Which of Bill's thousands of friends has the inside track with the President-elect? When will Hillary drop the Goody Two Shoes routine? Will glittering receptions be replaced by clogging parties on the White House lawn? Look for

IN

VERNON JORDAN, Chairman of Clinton's transition team

OUT

MICKEY KANTOR Clinton's staff found him arrogant, nixing him from the transition team



IN

TRACTOR PULLS in Landover, Md.

OUT

DOVE HUNTING in Beeville, Tex.





ransplant, he's going to be talking to people all the time." Indeed, the Clintonites had toyed with the idea of the President serving as his own staff chief, but they're leaning away from the plan.

Just as campaigner Clinton made a fetish of avoiding the mistakes of Michael S. Dukakis in 1988, the President-elect seems determined to do everything differently from the last Democrat to occupy the Oval Office, the hapless Jimmy Carter. The transition team believes Carter erred by giving his Cabinet too much discretion in hiring, allowing constituent groups to hijack Carter's reform agenda. Worse, Carter overtaxed his most able domestic-policy adviser, Stuart L. Eizenstat, by putting him in charge

of both economic and social policy.

To avoid such mistakes, the Clintonites are turning to two unlikely models. The Economic Security Council bears a striking resemblance to Gerald R. Ford's Economic Policy Board. "I certainly was struck," says L. William Seidman, who was chief of Ford's EPB. "It's exactly the same thing." But the creation of the council creates another layer in the decision-making process—a definite drawback. "The name of the game in the White House is who talked to the President last," warns Seidman. "His economic advisers will have to know that he uses his meetings with the council to make decisions, and that phone calls after the fact will do them no good."

The Clintonites also are closet admirers of the ideological rigor with which Ronald Reagan filled Cabinet and sub-Cabinet jobs in 1980. Transition directors Vernon E. Jordan Jr. and Warren Christopher have the high-profile task of recommending Cabinet members. But at the same time, Clinton staffers are quietly rounding up potential Under Secretaries and assistant secretaries sympathetic with Clinton's centrist goals.

RIGHT OF REFUSAL. One Reaganism that Clinton may want to emulate: placing high-level White House loyalists in every agency, to ensure that the Clinton line is adhered to throughout government. "Everyone getting a Cabinet post will understand that Bill Clinton has first right of

IN
ENING SHADE,
a Bloodworth-
asson TV show

OUT
MAJOR DAD



IN
ECONOMIC SECURITY
COUNCIL

If Clinton's new competitiveness office is headed by a heavyweight, such as Harvard's Robert Reich, the council could trample on bureaucratic toes

OUT
COUNCIL OF ECONOMIC
ADVISERS

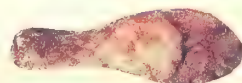
Quick, who's Mike Boskin? The CEA has been eclipsed by the more powerful budget office. Under Clinton it will crunch numbers very, very quietly

IN
CHICKEN, ANY STYLE

HUSH PUPPIES
MOUNTAIN VALLEY
SPRING WATER

(from Hot Springs, Ark.)

OUT
PORK RINDS



QUENELLES
POLAND SPRING
WATER

(from Poland, Ark.)

refusal on staffing," says a transition official. "Bill Clinton promised to be a different kind of Democrat. His challenge now is to redeem that promise."

But Clinton's passion to take a new broom to Washington is risky. The Arkansan's attacks on Capitol cronyism and nest-feathering already have irritated House Speaker Thomas S. Foley (D-Wash.) and Senate Majority Leader George J. Mitchell (D-Me.). Both stand ready to fight Clinton if he pushes for two campaign promises: line-item veto authority or a big cut in congressional staffs to complement a promised 25% cut in White House personnel.

Clinton's plans to impose tough new restrictions on post-employment lobbying by senior Administration officials also could backfire. Under plans being discussed, officials would be barred from lobbying for companies for five years after leaving government and would be prohibited from working for foreign governments for life. The move is designed to mark a sharp break with the Bush Administration's coziness with lobbyists—and to appeal to the disaffected supporters of Ross Perot. But, warns political scientist James W. Davis of Washington University in St. Louis, Clinton "doesn't want to make the prospect of public service unattractive to people in the private sector. He could shoot himself in the foot."

TIME PRESSURE. That may be why Clinton is moving so cautiously. Transitions have a way of setting the tone for an Administration, establishing its strengths and sometimes planting the seeds of its destruction. Political scientist Stephen Hess of the Brookings Institution warns that governors who come to Washington, especially those from smaller states, often underestimate the bureaucracy. "The first thing Clinton must remember is that Washington isn't Little Rock writ large," says Hess.

Clinton, the Georgetown University graduate and National Governors' Assn. veteran, is no capital neophyte. But in the coming weeks, he must constantly remember that his power could peak the day he takes office. Faced with such intense time pressure on the economy, having well-built plans ready to roll on Jan. 20 may be the only way to go.

By Douglas Harbrecht in Washington

FOREIGN POLICY



CAMERA ASSEMBLY: CHINA'S GROWTH COULD SLOW IF CLINTON LINKS TRADE TO HUMAN RIGHTS

THE WORLD SIZES UP CLINTON

Leaders are trying to forecast his foreign agenda from campaign clues

When Governor Bill Clinton visited Hong Kong a few years back to drum up interest in Arkansas, the then-U.S. Consul General offered to host a welcoming cocktail party. Trouble was, "I could hardly get anyone to come," recalls Burton Levin, now director of the Asia Society Hong Kong Center. Levin's only suggestion to the jilted governor was to try and interest local executives in the prospect of importing Arkansas catfish.

Today, of course, if Clinton were to visit, organizers would need to rent out the 83,000-seat Shatin Racecourse stadium to hold all those who would come to check out America's new leader. Indeed, all eyes around the world are on the President-elect, an unknown quantity when it comes to foreign affairs. In Hong Kong, leaders await signs of Clinton's tilt on human rights vs. trade with China, since the colony's future rests with Beijing. And

around the globe, there's much at stake.

Clinton campaigned to become the first post-cold-war President. He vowed to move beyond obsolete East-West divisions and put the U.S. economy at the top of his agenda, to lead the world from a position of strength. A whole new set of international relations needs mapping out. The world is watching to see just how Clinton shapes a new American foreign policy.

The first signals will come quickly enough. If a trade brawl with Europe (page 34), turmoil in Russia, and a widening war in Yugoslavia aren't enough, there is also the delicate Middle East peace process to prod forward. Down the road, Clinton faces a slew of trade disputes with Europe and Asia.

INFORMAL. Meanwhile, friends and foes alike are trying to take the measure of the man, hard as it is before key Cabinet posts are filled and policies are outlined. New to the world stage, Clinton has few

IN
ELVIS

OUT

THE GRAND OLE OPRY

Clinton knows most of Nashville we'll for Bush. Randy Travis won't be warbling at any state dinners



IN

JOGGING

(jiggly-legged variety)

OUT

JOGGING

(skinny-legged variety)



IN

DIVERSITY

Clinton's transition team is led by a black lawyer and includes a woman, an Hispanic, and several Jews. Saaay—where are the Asians, Native Americans, and Samoans?

OUT

THE OLD-BOY NETWORK

Sure, there's a group of former Rhodes Scholars who pore over Swedish land manuals. But thanks to Hillary's influence, Clinton's team will 'look like America'

personal relationships abroad, and his informal style is jarring to some old-school layers. German Chancellor Helmut Kohl addressed his congratulatory telegram to "William Clinton" and was taken aback to learn that the President-elect goes by Bill." Even the "special relationship" with Britain will need extra tending. Clinton's campaign talk of sending an envoy to Northern Ireland and withdrawing

S. troops from Europe have Britain's Foreign Office on edge.

What Clinton lacks in friendships he may make up for in a broad outlook. Many of his policy prescriptions, such as business-government partnerships and national health care, have a familiar ring abroad. "In the 1980s, Reaganism was applied by the Europeans. Now, it's the reverse. For Clinton, Europe is... a model," says Dominique Moisi, associate director of the French Institute of International Relations. Clinton also seems more willing than Bush to share global power. He checks permanent seats for Japan and Germany on the U.N. Security Council and likely wouldn't block a Franco-German military force to supplement NATO. "Clinton doesn't think [the U.S.] has to do everything everywhere," says top foreign policy adviser.

WINK SLIPS. U.S.-Japan relations, a trade mine field, will be one of Clinton's early tests. The subject: rice, one of Arkansas' big products. Tokyo has an absolute ban on imported rice, although it has agreed to open its market gradually, beginning with just 3%. But the impatient U.S. Rice Millers' Association is threatening to revive a complaint against Japan.

The pressure will mount when, just as Clinton takes office, Japan announces its largest trade surplus ever: more than \$124 billion. At the same time, U.S. corporations competing with the Japanese, including General Motors, IBM, and AT&T, will hit employees with a blizzard of pink slips. Next, Japanese electronics manufacturers, which pledged to buy 20% of their semiconductors from the U.S., probably will miss a Jan. 1 deadline for compliance, prompting U.S. chipmakers to demand stepped-up pressure. Meanwhile, a battle to shape Japan poli-

cy is in full swing as Clinton and his inner circle take soundings from a wide array of experts. As in other areas, Clinton advisers are divided—and the President-elect hasn't indicated which way he'll jump. Among those with Clinton's ear are hardliners Glen S. Fukushima, a former trade official now an AT&T executive in Japan, Mike Mochizuki of the University of Southern California, and Robert M. Orr

illeges to China's record on human rights and arms trafficking—bills Bush vetoed. At stake for China is \$20 billion in exports to the U.S.—without which its speedy growth could derail.

CHINA CHOICE. Clinton has until June 3 to decide whether to renew most-favored-nation trade status for China. Some experts suggest that the U.S. has more leverage over China than Bush was willing to use.

They point out that after Bush's F-16 fighter-jet sale to Taiwan this fall, China gave in to U.S. trade demands. One likely scenario: Clinton, mindful of China's emerging role as an economic superpower, presses for better performance on trade, human rights, and non-proliferation but gets Capitol Hill's blessing for mild or no conditions on MFN renewal. A key Asia adviser: Richard C. Holbrooke, a State Dept. official under Carter, who counsels against isolating China.

Before he has to worry about China, though, Clinton may have to face chaos in the former Soviet Union. Clinton criticized Bush for not doing enough to bolster Russian President Boris Yeltsin. But just as it's becoming clear that the former Soviet Union will need mountains of Western aid, Russia's retreat from reforms and its backsliding on arms-control pledges threaten to undermine U.S. public support. "The U.S. has to do some heavy thinking about what we can and cannot tolerate," says a State Dept. East-West expert.

And elsewhere, Iraq or a resurgent Iran may try to goad Clinton into a test of his willingness to use force. Clinton says he will keep the U.S. air cap over the region.

Military might, though, is bound to take a back seat to pumping up America's economic muscle in the new foreign policy agenda. "Our economic strength must become a central defining element of our national security policy," Clinton told a Georgetown University audience nearly a year ago. The world awaits Clinton's chance to put that principle into practice.

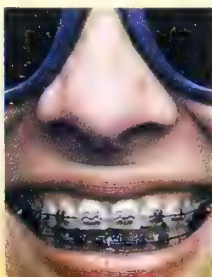
By Amy Borrus, with Paul Magnusson in Washington, Karen Lowry Miller in Tokyo, Dave Lindorff in Hong Kong, Gail E. Schares in Bonn, and bureau reports



Jr., a onetime foreign aid official, now teaching at Temple University's Tokyo branch, who thinks Clinton's first trip abroad should be to Japan. But in general, Clinton doesn't share Bush's philosophical aversion to managed trade, advisers say. Instead of negotiating to open doors, Clinton may cut more deals, such as the semiconductor accord that set specific targets for U.S. access.

Of all trade partners, China has the most to fear. Clinton has backed congressional moves to link renewal of trade priv-

IN
S WHO NEED
BRACES
OUT
S WHO NEED
AWAYERS



IN
CANDICE BERGEN
OUT
ARNOLD
SCHWARZENEGGER



IN
SINCERE RED TIES



OUT
SMUG GREEN TIES



BUSINESS SPEAKS TO CLINTON —IN MANY TONGUES

Executives invited to December's economic summit agree on very little

Bill Clinton, conciliator and consensus-builder, is in for a real workout when he convenes his summit of business leaders and economists next month. If he expects the CEOs to speak with one voice on the problems of the American economy, he can forget it.

Consider trade. "If Clinton follows through with his support of the North American Free

fees—to support education, rebuild infrastructure, and create a national "data highway," says Roger A. Strauch, CEO of Teknekron Communications Systems in Berkeley, Calif. Wrong, says Joseph Mooibroek, president and CEO of American Medical Electronics Inc. in Richardson, Tex. He thinks new taxes—even on the rich—will hurt more than help. From hikes in taxes,

hope that he and his Democratic cohorts in Congress remember that only the private sector can create long-term, survivable jobs." Even tax breaks to boost private-sector hiring are a bad idea, says AMD's Sanders: "No one is going to hire people you don't need, so government would be paying companies to do what they'd be doing anyway."

Just like the voters, business leaders often saw what they wanted to see in Clinton. To Mesa Inc.'s T. Boone Pickens, "it's obvious that [Clinton] believes in natural gas as a domestic fuel and that it should be used in place of foreign oil and foreign gasoline." Fluor Corp. CEO Leslie G. McCraw hopes Clinton's emphasis on infrastructure can be stretched to include the heavy industrial plants Fluor builds.

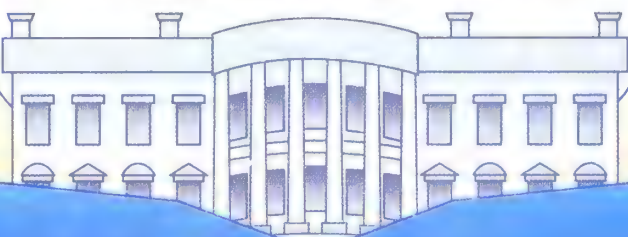
HIDDEN VEIN? Silicon Valley and other high-tech centers—the source of many of Clinton's business endorsements—see a new day of industrial policy dawning. "This separation between business and government needs to be changed," says Edward R. McCracken, president of Silicon Graphics Inc. James R. Houghton, chairman of Corning Inc., hopes Clinton will combine the Commerce Dept. and U.S. Trade Representative's office into a competitiveness-boosting agency.

Some CEOs will bring Clinton-style four-point programs to the summit. Chairman John Sculley of Apple Computer Inc. wants to stimulate small business by cutting capital-gains taxes, easing bank regulation, setting up pools to help smaller companies market commercial paper, and forcing federal agencies to consolidate their many reporting demands into one short form.

Many others believe Clinton needn't do a thing to give the economy a boost. Just by appearing to tackle problems head-on, says Playboy Enterprises Inc.'s CEO, Christie Hefner, Clinton has tapped a hidden vein of energy. "There's pent-up optimism among a lot of business people," she says. Ryal R. Poppa, chairman and CEO of Storage Technology Corp., puts it most bluntly. Regardless of what Clinton does, predicts Poppa, "I bet within two weeks you'll see people saying: 'Things are better.'"

By Mike McNamee in Washington, with Richard Brandt and Robert D. Hof in San Francisco and bureau reports

A SAMPLING FROM CEO WISH LISTS



★ Cut the deficit—but not too quickly. Shrink government by cutting waste and looking hard at outdated programs. Think 'user fees,' not 'taxes'

★ Steer clear of protectionism

★ Spur investment with targeted cuts in capital-gains taxes, faster depreciation, and investment and research credits

★ Create jobs in private industry, not government. Cut unnecessary regulations and paperwork

★ Don't try to impose a nationalized health system. Reform health care by controlling costs, cutting regulations, and boosting competition

★ Keep a lid on liberal Democrats in Congress

Trade Agreement and continues opening markets rather than becoming protectionist, I'm hopeful," says W. J. "Jerry" Sanders III, chairman of Advanced Micro Devices Inc. in Sunnyvale, Calif. But will he? Not a chance, says Ely Callaway, CEO of clubmaker Callaway Golf Co. in Carlsbad, Calif. "We are in a trade war and losing it every day," Callaway warns.

Or take taxes. The new Administration should raise taxes—especially user

"you'll get a long-term depressive effect," he says.

In fact, CEOs seem to agree on just a few issues (table). Not surprisingly, most want incentives—either investment tax credits or targeted cuts in capital-gains taxes—to boost capital spending. And whatever Clinton does to stimulate growth, business wants to tell him: Leave the job creation to us.

James L. Vincent, chairman of Biogen Inc. in Cambridge, Mass., snaps: "I just

IN

MOTOR HOMES,
summers in Hot Springs

OUT

SUMMER HOMES,
fishing in Maine

IN

PAMELA HARRIMAN,
the new superhostess

OUT

GEORGETTE
MOSBACHER

IN

BASS-FISHING BOATS

IN

BIG MAC ATTACK

OUT

CIGARETTE BOATS





THOMAS F. 'MACK' McLARTY III

PERSONAL

Born in Hope, Ark., June, 1946—two months before boyhood pal Bill Clinton

PROFESSIONAL

Joined family business, McLarty Leasing, in 1969. Moved to Arkla Inc. in 1979. In 1984, became Arkla's CEO

POLITICAL

Served two years in the Arkansas House. Former member of Democratic National Committee. Chaired Clinton's 1978 gubernatorial campaign

NEW AMBITION

A policy-making job in the Clinton Administration?

DATA: BW

BILL AND MACK: A LONG WAY FROM MISS MARY'S KINDERGARTEN

Thomas McLarty, gas exec and Clinton pal, may be a voice for business

Richard Nixon had Robert Abplanalp and Bebe Rebozo. Ronald Reagan had Alfred Bloomingdale and his millionaire buddies. And President-elect Bill Clinton has... Mack McLarty.

Many Presidents form fast friendships with successful business executives. But Thomas L. McLarty III, chairman of natural-gas giant Arkla Inc., is a First friend with a difference. McLarty, 46, long has straddled the worlds of business and politics. Now, his longtime association with Clinton has landed him a job as a director of the President-elect's transition team, where he'll try to recruit top business talent for the new administration. "I think most people could strongly support a fresh, businesslike approach to government," McLarty says.

If McLarty sometimes sounds like Clinton, it's no accident. The two budding bubbas met in Miss Mary's Kindergarten, a private nursery school back in

Hope, Ark., and have been friends ever since. "I doubt if there'll ever be any other Presidential nominees graduating from Miss Mary's," McLarty says.

Although McLarty's childhood was far more comfortable than Clinton's, the two have followed paths that have crissed and crossed. When Clinton made his life-changing trip to John F. Kennedy's White House as a participant in the 1963 Boys' Nation, McLarty was elected president of Arkansas Boys' State.

When Clinton took off for Georgetown, Oxford, and Yale, McLarty traveled up the road to the University of Arkansas in Fayetteville. After that, he served a term as the youngest state representative in Arkansas history, then returned to Hope to help his auto-dealer father build a car- and truck-leasing business—which eventually made the McLartys rich.

The senior McLarty, who died in 1977, was close to many of Arkla's directors. So, in 1974, 28-year-old Mack was elected

to the board of the company, which at the time was little more than the local gas utility. "I tried to look wise and nod at the right times," he says of his early board tenure. In 1979, he went to work for Arkla full-time, at a subsidiary company. The politically astute McLarty rose swiftly through the company, becoming president of the Arkansas gas distribution operation in 1983. By 1985, he had risen to chairman and chief executive of the parent company.

Arkla, like the rest of the gas-pipeline industry, has been hurting in recent years. In the early 1980s, the \$2.8 billion company signed long-term "take-or-pay" contracts to buy gas at prices that turned out to be well above the spot market. Because its purchasing commitments were larger than its customer demands, McLarty then snapped up local gas utilities along the gulf coast and in Minnesota to create markets.

But the acquisitions left the company saddled with debt, and a string of warmer-than-normal winters in its service areas turned the tap down on cash flow. Profits have tumbled from \$133 million in 1988 to \$18 million last year. The stock has fallen from nearly 30 in 1983 to less than 9 recently.

HELPING A PAL. Despite Arkla's problems, analysts give McLarty mostly glowing reviews—when they're on the record. But one analyst who takes a particularly dim view of his leadership suggested that the reason "he hasn't been criticized more is because he's such a nice guy." Adds a former employee, who also wished to remain anonymous: "I think he's a politician in a corporate role. His best asset is that he can remember the name of every person he has ever met."

McLarty takes pains to say he's not angling for an Administration job. "I'm just here to be supportive of my oldest friend," he demurs. But he has been rumored for several posts, including Energy Secretary and Transportation Secretary. Clinton has been tight-lipped about appointments, but as the only executive among the lawyers and politicians on the transition team, McLarty is sure to be deluged with resumés. Even if he doesn't come to Washington, he could become an important business pipeline into the Oval Office. And it all began in a place called Hope.

By David Dodson in Washington

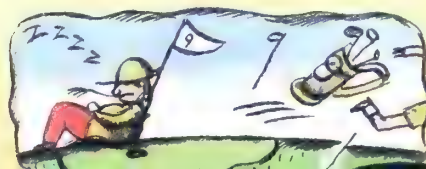
IN

GEORGE HANOPOULOS and tightly, Clinton's pint-communications could be a top ntial assistant. out for these ttle elbows



IN

LEISURELY GOLF
in Rock Creek Park



OUT

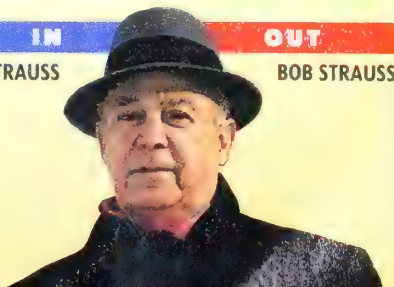
SPEED GOLF
at Burning Tree

IN

BOB STRAUSS

OUT

BOB STRAUSS





FRANCE HAS LOUDLY DEFENDED FARM SUBSIDIES, BUT MITTERRAND NOW TAKES A SOFTER LINE

BUSH'S FIRST SHOT MAY AVERT A TRADE WAR

The wine duties could force compromise on a long-simmering dispute

Call it the "smart bomb" of trade warfare. In vowing to raise tariffs to 200% on \$300 million worth of white wine and other exports from France, Germany, and Italy, the Bush Administration precisely targeted the main European Community obstacles to resolving a seemingly endless dispute over agricultural subsidies, specifically production of oilseeds. In doing so, Washington may have helped avert an all-out trade war.

Within days, Bush's laser-guided sanctions were homing in. On Nov. 9, EC foreign ministers rejected French calls for retaliation and got solidly behind the need to negotiate before the Dec. 5 deadline Washington set. And on Nov. 11, the European Commission voted to restart agriculture talks with the U.S. under the General Agreement on Tariffs & Trade as soon as possible. Meetings between EC and U.S. trade officials already are being scheduled. "Getting involved in a trade war would be the most stupid thing we could do at the moment," says German Foreign Minister Klaus Kinkel. Even French President François Mitterrand has shifted his tone of late, accenting the need to avoid isolating France within Europe over the trade issue.

What tipped the balance for France,

the EC's biggest agricultural exporter and loudest defender of farm subsidies? Apart from Washington's big stick, pressure from within the EC has intensified dramatically. Although Bonn, traditionally an ally of Paris, has not been vocal about France's recalcitrance, other EC members have. And the French don't want to be blamed for a collapse in GATT.

NO CHEWING. Europe's recent disunity is one reason Washington's volley was so deadly. From paralysis over Yugoslavia to fumblyings and setbacks over ratification of the Maastricht Treaty, EC members have reverted to covering domestic politics rather than shaping collective positions on key internal and external issues. "The EC is fast becoming an orga-



EC PRESIDENT DELORS: PUBLIC PRESSURE MAY MEAN HE'LL HAVE TO MAKE A DEAL

nization that can't walk and chew gum at the same time," says a senior U.S. official in Europe. "And in the last few weeks they haven't even been able to walk unaided."

The turning point may have come when Ray MacSharry, EC farm commissioner, withdrew as a key negotiator citing interference from EC Commission President Jacques Delors, a potential successor to Mitterrand. The incident served as a public embarrassment to France. The Nov. 10 announcement that MacSharry will return to the talks means France will find it tougher to operate behind the scenes through Delors as talks resume. And since the U.S. and EC are as little as 1 million metric tons apart on where reduced levels of EC oilseed production should lie, there's plenty of room for a pact.

French officials have quietly begun examining whether there's a face-saving way to present lower output levels to farmers as the inevitable result of European agricultural reforms. Another strategy: The EC could sweeten the oilseed pill by securing U.S. concessions on service industries when the stalled GATT talks resume.

STRADDLER. But France's socialists, facing angry farmers in the runup to legislative elections next spring, could yet find a trade deal unpalatable. And they could easily revive the crisis. So far, Paris has been able to count on solid support from agricultural interests inside and outside Bonn. To underline the point, Bush's wine levies are aimed at the Burgundy and Rhineland vineyard regions that are home to France's Agriculture Minister and German Chancellor Helmut Kohl, respectively.

Kohl has so far deftly straddled his allegiance to Paris and Washington, pressuring France only discreetly. Now, the risk of a trade war as a new, less free-trade-minded Administration moves into Washington has mobilized German industry, too. On Nov. 9, two leading German industrial groups that back Kohl lashed out publicly at Delors and demanded that Kohl work to bring France around. They fear that failed trade talks will prompt the collapse of the global trading system on which Germany's export-led economy depends.

Muscling France "is something Germany is always reluctant to do," says Stephen Woolcock, a European trade specialist at Britain's Royal Institute of International Affairs. But with the two sides heading back to the negotiating table, Bush's smart bomb may have nailed even that problem.

By Bill Javetski in Paris, with Patrick Oster in Brussels, and John Templeman in Bonn

FORD IS SET TO PICK A STEADY-AS-YOU-GO PRESIDENT

ex Trotman, a 37-year veteran, counts beans and focuses on design

oul-weather flying was Alexander J. Trotman's specialty as a Royal Air Force airman in 1955. Night af- night, the young navigator drilled in rkshire by taking off and landing in use fog or howling gales. These days, otman, head of Ford Motor Co.'s orth American automotive operations, navigating a different kind of turbu- ence: Auto sales worldwide are so de- pressed that even Japanese carmakers e struggling. And while crosstown ri- Chrysler Corp. surges back from a ash with oblivion, General Motors

rp. is trying des- ately to stanch its w of red ink. So far, the British- rn Trotman, 59, s kept Ford on a eady domestic urse. So steady, in et, that the 37-year rd veteran is ex- ected to be named e company's presi- nt and earn a seat e Ford board. e promotion could e as soon as v. 12, when the di- ctors are set to et. Ford won't mment on its ns, but such an el- ation would put otman solidly in e to succeed Ford airman and Chief ecutive Harold A. ling, 67, who is e to retire in 1993.

GOOD LISTENER. The early reviews on ling's choice of successor are solid. otman is an excellent choice," says orge C. Peterson, president of Auto- efic Group Inc., a consulting firm. e's a person who can walk the tight- e between keeping very good finan- l controls on operations while main- ing a good product." Former leagues say Trotman is a good listen- who's not afraid to voice unpopular ions. And Shigeo Kasuga, director international business for joint-ven- e partner Mazda Motor Corp., says otman stands out as quiet and ughtful among Ford executives. otman's 3½ years at the wheel of rd's North American operations dem-

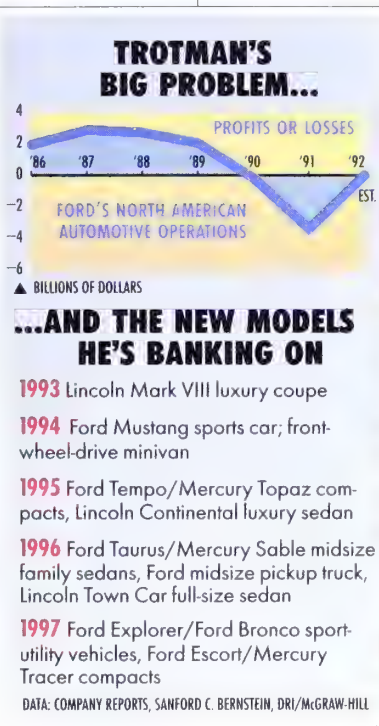
onstrate that he's also not afraid to get his hands dirty. The executive, who prides himself on penny-pinching, trimmed white-collar ranks by 5% this year and slashed \$2 billion from Ford's product-development budget. "It's just amazing how much waste there is, when you really get down to it," he says. One example: Trotman told a team in charge of a Ford newsletter to switch from first-class to third-class mail.

But Trotman insists that he doesn't plan to cut corners on design. Indeed, in the past few months, Ford has launched

\$1 billion in capital from a preferred stock offering last month. Unlike GM and Chrysler, stuck with unfunded pension liabilities, Ford's pension fund is over-funded.

DICEY PROSPECTS. Despite all this, Ford isn't back in the black yet. The company lost \$159 million in the third quarter of 1992, after an \$840 million first-half prof- it. And it has warned Wall Street that its fourth-quarter prospects are dicey, thanks to weak North American and Eu- ropean demand. J. Gerard Paul, an an- alyst at Sanford C. Bernstein & Co., ex- pects the company to post a \$620 million gain on \$84 billion in revenues for 1992. Trotman says he would like Ford even- tually to earn \$5 billion on annual reve- nues of \$100 billion. That's a goal the company is "extremely unlikely" to reach next year, Trotman concedes.

Trotman's respect for design—even in the face of hard economic times—may be the result of harsh lessons learned as



NEW BOSS? ADEPT AT COST-CUTTING



a raft of new products, including the sporty Ford Probe compact, the Mercury Villager minivan, and the Ford Ranger compact pickup. And the company has dozens of important new models in the pipeline (table). Under Trotman, says Bernard G. Campbell, an analyst at DRI/McGraw-Hill, "most of Ford's products introduced over the past few years hit the market on time, within budget, and sold well."

Indeed, Ford vehicles moved well enough during the first 10 months of 1992 to gain the company 1.3 points of market share, snagging 24.5% of the U.S. light-vehicle market. Overall, Ford's balance sheet is strong, and the company bolstered it with an additional

head of Ford Europe. When Trotman left his European post in 1989, Ford was the most profitable auto maker on the Continent, riding a tide of solid products and weak competition. But the bottom fell out suddenly when European economies weakened last year.

For Ford, that problem was compounded by product shortcomings. Under pressure from Detroit, Trotman had scrimped on new-product spending during the late 1980s. As a result, its European Escort was derided as stodgy and underpowered when it arrived in 1990. The larger Scorpio and Sierra sedans are aging. Ford now is spending heavily to catch up in the midst of a downturn, hammering profits. And Ford will cut

3,587 jobs in Britain, riling the unions.

In the U.S., Trotman has opted to cut costs by pushing hard to improve factory productivity, even forming a SWAT team to boost results through teamwork with the United Auto Workers. In one instance, the team worked with UAW Local 862 to hike production of the popular Ford Explorer at Ford's Louisville plant by 20,000 units. A study by Harbour & Associates Inc. shows how big an advantage such productivity gains give Ford: Its labor cost per vehicle is \$795 less than GM's, \$309 less than Chrysler's.

GLACIAL PACE. Recently, Trotman has shifted his focus to Ford's longer-term problems: inefficient new-product engineering and lethargic strategic planning. Ford is selling such aged products as the 9-year-old Tempo and Topaz and a Mustang last redesigned in 1979. Ford now takes a glacial four or five years to develop a new product from scratch. Trotman's goal: Match the 36-month cycle of Chrysler and the Japanese carmakers.

Foot-dragging, after all, can be costly. Ford will have to wait until 1996 for a redesigned Taurus, long after competitors release their redesigned entries. Ford needs to squeeze development costs, too. Its modest redesign of the Taurus in 1992 cost \$600 million. "Japanese competitors are doing entire new vehicle programs for much less than that," says Harbour & Associates' Ron Harbour.

Trotman figures that Ford, with a little improvement, could quickly make big inroads in the domestic market. With Japanese carmakers raising prices in the U.S., and troubled GM losing ground, a chunk of market share is up for grabs. That's why, on its 1993 models, Ford hiked prices just 0.3% above comparably equipped 1992 vehicles. And it continues to push an aggressive, two-year, \$313-a-month lease program on the Taurus, which has given that model a shot at surpassing the Honda Accord as the nation's top-selling car.

To wind up as Ford's chairman, Trotman will have to leapfrog his current boss, Allan D. Gilmour, once considered likely to succeed Poling. Those close to the company say Gilmour, a financial whiz with scant operating experience, will be named vice-chairman for finance. And Executive Vice-President Louis R. Ross is expected to become vice-chairman for technology. Trotman will need help from Gilmour, known for his sharp wit and smooth public-speaking style, to co-pilot Ford through the auto industry's current storm. But it's going to be Trotman sweating it out at the controls.

By Kathleen Kerwin and David Woodruff in Detroit, with Karen Lowry Miller in Tokyo and Richard A. Melcher in London

SOFTWARE

TWO HEAVYWEIGHTS GO TOE-TO-TOE IN VEGAS

The fighters: Microsoft and Borland. The prize: Data-base supremacy

Las Vegas has hosted many prize-fights over the years. But none like this one: Beginning Nov. 16, America's capital of glitz will be the site of a software battle royal between Microsoft Corp. and Borland International Inc.

The backdrop: the computer industry's giant annual schmooze-in, Comdex. At stake: the market for data-base programs that software companies use to store and retrieve financial, inventory, and customer information.

Microsoft may be throwing the most extravagant punch: To toast the launch of its Access data base, Chairman William H. Gates III will toss a champagne fete for 1,000 at Caesars Palace. At the event, he will announce an initial price of \$99 for Access, radical in a market where products usually sell for over \$600.

Borland Chairman Philippe Kahn will counterpunch with a heavily promoted keynote speech. In his talk, Kahn is set to plug two long-awaited Borland data-base programs, due out early next year. To make sure the crowd of 135,000 expected to attend Comdex gets the message, Kahn personally will pilot a biplane over Vegas every afternoon, trailing a banner that reads, "Borland flies high."

TOO LATE. It does for now. Borland controls 65% of the \$450 million market for personal computer data-base programs. Last year, in a \$440 million stock swap, it acquired Ashton-Tate Corp., the market pioneer and maker of the popular dBase program. Already successful with its Paradox data base, Borland's acquisition seemed to guarantee it an unbreakable lock on the third-largest PC software category.

Then came damaging new-product delays. Originally scheduled for release earlier this year, the important Windows versions of both dBase and Paradox were postponed, helping to drive Bor-

land stock down to around 31, a long way from its all-time high of 86 in January. Says Shearson Lehman Brothers Inc. analyst David B. Readerman: "The longer Borland waits, the more vulnerable they are."

Indeed, the delays gave Microsoft an unforeseen opening. In March, it snapped up Fox Software Inc., maker of FoxPro, a dBase-compatible program that holds a respectable 12% share of the market. At Comdex, Gates is expected to promise FoxPro for Windows by Christmas, beating out the new dBase.

POULTRY VALUE? But the real show-stealer will be Microsoft's first homegrown data base, Access. Nearly three years in the making, its key features are an ability to tap into data stored on big computers and a friendly design amenable to non-programmers. "Access is the prettiest one," says Boston data-base guru Adam Green, who is testing all four new programs.

Looks aren't everything, counters Borland Vice-President Robert H. Dickerson, who says buyers care most about performance. Access' snazzy look "is like lipstick on a chicken," he says. "All the makeup in the world won't help." Gates retorts: "It's wonderful to have your competition underestimate you."

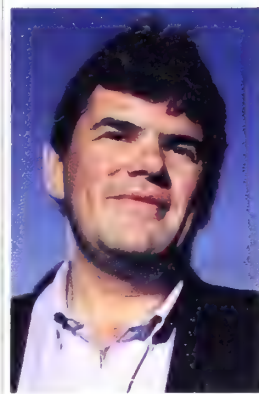
Many analysts are betting that the battle between Borland and Microsoft will

expand the market. Smaller players, such as Alpha Software, Approach Software, and Computer Associates, may be hurt most by the bruising battle, they say. Consultant Green, though, is putting his money on Microsoft, predicting it could snare share from Borland. Once the dust settles, the long-lasting effects of this software bout will likely be low, low data-base prices. That means consumers will take home the purse.

By Evan I. Schwartz in New York, with Kathy Rebello in San Francisco



MICROSOFT'S GATES: CHAMPAGNE FOR 1,000

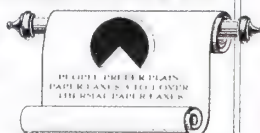


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CRAIG McCAW'S VERY SWEET DEAL

And it isn't exactly shabby for AT&T, either

Chairman Robert E. Allen of AT&T doesn't like to throw money away. But here he is, offering \$100 million to Craig O. McCaw and other insiders at McCaw Cellular Communications Inc. without getting one share in return. So what does American Telephone & Telegraph Co. get for its money? Nothing but the right to give the same insiders an additional \$600 million. And what would it get for that payment? No more shares. Only the votes it needs to seize control of McCaw Cellular—and, if it chooses, to throw its esteemed partner Craig McCaw out on his ear.

Even the people from AT&T who concocted the plan say they have never seen anything like it. But negotiators on both sides agree that it may be the key to the biggest deal in the short but dramatic history of the U. S. cellular industry. Under terms of the negotiations, made public on Nov. 4, AT&T would pay nearly \$3.73 billion for one-third of McCaw shares. McCaw's service would begin to be marketed exclusively under AT&T's logo. By teaming up, the No. 1 players in their respective businesses hope to bring wireless phone service to the masses.

AD BLITZ. To get this far, the two sides had to reconcile clashing objectives. Craig McCaw insisted on keeping control of the company he and his family built. And AT&T's Allen demanded a measure of control over McCaw to safeguard the name of AT&T, which it plans to associate intimately with cellular-phone service in a blizzard of ads.

It's a complicated deal, to be sure, but step by step, here's what they worked out: AT&T will pay \$1.97 billion for new McCaw shares and about \$1.75 billion for McCaw shares that are held by British Telecommunications PLC. In addition, it will buy a \$100 million option from Craig McCaw, his three brothers, and a few other insiders. They hold Class B shares, which have 10 times the voting power of ordinary equity. To



CEO McCAW: HE GETS CONTROL, AND THE AT&T LOGO

exercise that option, AT&T would have to pay the insiders another \$600 million. In return, the insiders would swap enough B shares for AT&T's ordinary shares to give AT&T a majority of voting shares.

What crisis might lead AT&T to go through all that? "I'm not going to speculate with you on problems," says Allen, who nonetheless added: "If for some reason, God forbid, the management gets wiped out on an airplane..."

McCaw went looking for a strategic partner in 1990. It considered IBM, Motorola, MCI Communications, Sprint, and General Motors' Electronic Data Systems, among others. But it came back to AT&T because of its clout in marketing and its Bell Laboratories, which invented cellular.

McCaw Director Harold S. Eastman made the first tentative approach, which Craig McCaw followed up in late 1990 with a call to Allen. The talks were put on ice while AT&T did an even bigger deal,

last year's \$7.4 billion hostile takeover of computer maker NCR Corp. They restarted in late 1991, only to stall this spring. Negotiators were stuck on whether AT&T would pay a little money and have no control, or pay a lot of money and get control from the start.

'A GENIUS.' The breakthrough came in early summer, when AT&T Chief Financial Officer Alex J. Mandl and his negotiating team pitched the idea of a two-stage method for AT&T to get control of the board. McCaw then proceeded to squeeze AT&T for money. "We wanted to provide some hurdle to AT&T taking control through the option," says McCaw Chief Financial Officer Peter L. S. Currie. Currie says his boss regarded \$600 million as suitably prohibitive. With that issue settled by Labor Day, AT&T was able to focus on cutting a deal with British Telecom.

As he did in seizing NCR, Allen is proving that he's not cut from the conservative cloth of the old Bell System. Certainly an AT&T

McCaw deal creates huge opportunities such as the chance to win cellular customers through easier-to-use services and better marketing. But there are risks as well: By competing with other cellular operators that buy its cellular equipment, AT&T could drive them into the arms of competitors. And the stiff price AT&T is paying for McCaw shares (chart) will be worthwhile only if the partnership really does bring a whole new class of callers into the cellular fold.

So how does it add up? Plenty of investors like Allen's boldness: In contrast to the usual pattern in such a deal, AT&T's stock rose by 1%, to 44%, the day after negotiations were announced.

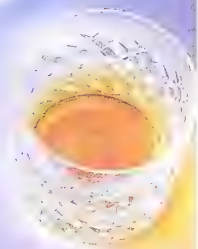
Just the same, Herschel Shostek, a Silver Spring (Md.) cellular expert, thinks McCaw got the better deal. He cites the slowdown in annual growth of cellular-industry revenue, from 70% in 1989 to perhaps 26% this year. "Craig McCaw is a genius," says Shostek. "Machiavelli would worship at his feet. McCaw is certainly in the driver's seat. If Bob Allen loses faith in the genius of Craig McCaw, he'll have to cough up \$600 million just to take over the wheel."

By Peter Coy in New York, with Robert D. Hof in San Francisco and Mark Lewy in Washington



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CONTINENTAL: A BASKET CASE RESCUED BY A WEAKLING

Its deal with Air Canada raises as many questions as it does hopes

When Continental Airlines Inc. revealed on Nov. 9 that it had agreed to accept a bid by Air Canada and investor group Air Partners, Continental Chief Executive Robert R. Ferguson III pronounced the deal a "major milestone." Air Canada's CEO Hollis L. Harris was "thrilled." With \$450 million from its new partners, Continental now should finally escape from bankruptcy. And Air Canada, long gnawed by fears of extinction, would increase its access to the vital U.S. market and secure its place in a fast-consolidating business. The two boast they will be able to exploit great synergies in route structure, purchasing, and maintenance.

But this marriage of two weak players raises as many questions as it does hopes. Although the cash infusion may propel Continental out of bankruptcy court, it's nowhere near enough to make it a strong competitor. Continental is saddled with an aging fleet. The 23 months that the carrier has spent in bankruptcy reorganization have done nothing to help it reinvest in the new equipment needed to keep up with stronger rivals. Moreover, Continental's image problems persist, and with them a failure to attract its share of business travelers. The upshot: low revenues that offset its lower-than-average labor costs.

FAILED DEAL. Solving all of these problems calls for vast capital investment. Trouble is, Air Canada itself is highly leveraged and in no position to supply the dough needed for new jets and more. So, Continental will emerge as a "viable but fairly weak player," says Standard & Poor's Corp. analyst Phillip Baggaley. With deep pockets an ever more crucial determinant of success, "they are swimming against the tide," he says.

In the near term, Air Canada gains far less than Continental. Its \$235 million investment in Continental—\$85 million in equity—does nothing to stem its own losses, which were running about \$1 million a day in the first three quarters. All that red ink is only furthering

the strain on a balance sheet with just \$370 million in equity against more than \$3 billion in debt and other obligations.

Recent developments in its domestic market threaten the carrier, too. A deal it had struck to merge with its weaker rival, Canadian Airlines International, collapsed. Canadian now is talking with American Airlines Inc. Should powerhouse American buy a chunk of Cana-



CONTINENTAL'S BAD IMAGE HAS KEPT BUSINESS FLYERS AWAY

an, the dying carrier could perpetuate the fare wars that have harmed both Canadian airlines. Indeed, unless Air Canada sees a major upturn in traffic next year, Ross Healy, CEO of Solveny Analysis Corp. in Toronto, predicts: "You have all the ingredients of a real financial nightmare"—insolvency, in a word. Air Canada dismisses such concerns, arguing that it has plenty of cash on hand from asset sales. It also expects sharp cost-cutting to end the losses.

The critics also contend that both carriers lack management depth. Numerous managers have abandoned Continental during its long spell in bankruptcy. Harris has fans among Continental's rank and file. But since it was Ferguson who succeeded him as Continental's CEO less than two years ago, his future role there is uncertain. Ferguson, for his part, enjoys less respect for his skill as an airline manager than for his cost-cutting talents and is mistrusted by some airline employees who view him as what one veteran pilot calls a "[Frank] Lorenz crony." He and David Bonderman, principal in Air Canada's co-investor Air Partners, are friends from their association with Braniff. Ferguson is expected to remain CEO.

Another worry is that the operating synergies the airlines are counting on may be tough to realize. Continental says it may use Air Canada's maintenance shops instead of contracting the work out, but the high cost of labor in Canada may cancel any benefit from that. It also will take work to meld the two carriers' route systems. Although Air Canada could quickly add routes if an open-skies agreement between the U.S. and Canada is completed, the airline doesn't fly to either Denver or Houston, two of Continental's biggest hubs.

Ultimately, the carriers' best hope may be to become part of something greater than themselves. The airline industry is headed toward a future dominated by megacarriers, whose routes would span all continents and command huge market share. In recent months, Air Canada has struck marketing alliances with Air France and United Airlines Inc., and hopes financial investment might come later on. Economist Frederic Lazear of York University even predicts that in a few years' time United may "step in

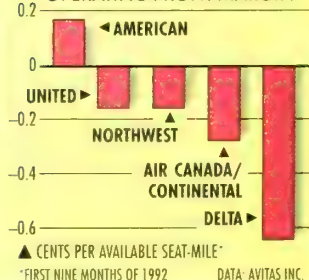
make an investment, and run the whole operation."

Antitrust guidelines make that sound farfetched. But in the airline business the incredible can happen. Continental and Air Canada can only hope they're still around when it does.

By Andrea Rothman in New York and William C. Symonds in Toronto, with bureau reports

RANKING AIR CANADA/ CONTINENTAL

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Commentary/by John Carey

FOOD LABELING: THE FDA HAS THE RIGHT INGREDIENTS

Last summer, Health & Human Services Secretary Louis W. Sullivan sat down with Food & Drug Administration brass to tackle a thorny regulatory issue. The question: Do current food labels allow consumers to make intelligent dietary decisions?

To find out, Sullivan played Joe Consumer. Supposing a food label listed nine grams of fat per serving, Sullivan tried to figure out whether that was a lot or a little. To make that call, Sullivan reasoned, he would need to be told the suggested daily maximum for fat, about 65 grams. But even that wouldn't be enough to figure out how those nine grams would fit into a daily diet, Sullivan concluded. For that, he would need a calculator. And he couldn't imagine busy shoppers whipping out calculators—much less knowing their daily fat targets. Says an FDA official: "We were all laughing—it was so ridiculous."

LOSE-LOSE. Not as ridiculous as what's going on now. Today, Sullivan and FDA Commissioner David A. Kessler are trying to issue a massive—yet quite sensible—set of new food-labeling rules. But objections from food lobbyists and Agriculture Secretary Edward R. Madigan, who argues that labels need less detailed information than what the FDA proposed, have prevented the badly needed rules from being issued by a congressionally mandated Nov. 8 deadline. The food fight has left President Bush with the very un-Presidential task of choosing whether FDA or USDA format labels should be slapped on some 500,000 products.

The flap is an embarrassment for the Administration and a disaster for the industry and consumers alike. Because of the delay, companies can't plan ahead. And ordinary folks won't get the dietary guidance they need. "This could turn out be one of the



HELP WANTED: THE FDA'S PLAN, NOW BLOCKED, PUTS THE NUMBERS IN PERSPECTIVE

[food regulation] nightmares of all time," says former FDA counsel Peter Barton Hutt.

Too bad, because the FDA's proposals would bring order to the chaos in food-labeling. Juices would have to bear names reflecting their primary ingredient, so consumers would be spared buying "raspberry passion" beverages that taste suspiciously like apple juice. Also, companies would finally have uniform definitions of such terms as "low-fat" and "light."

At the same time, food manufacturers would be allowed to make more health claims for their products—for example, that fiber may help fight cancer. "It's critically important for business, government, and consumers for this matter to be resolved quickly," says food industry attorney Richard L. Frank.

What has derailed the more than 5,000 pages of regulations is the issue that sparked Sullivan's concern in the first place. To let consumers know what fat levels really mean, Sullivan and Kessler insist that

labels include each food's percentages of suggested overall daily consumption of such things as fat, cholesterol, and sodium, based on a 2,000-calorie-a-day diet (illustration).

PUNT? But Madigan, pushed by the meat industry, counters that labels with the FDA's daily-consumption standards are too cluttered and too confusing. They also happen to make many meat products look bad. Madigan also ridicules the notion of a 2,000-calorie diet, noting that many men eat hun-

dreds of calories more. As a result, he says, the labels need include only the number of calories from fat and an admonition to choose a diet low in fat, saturated fat, and cholesterol.

Now what? Bush can either force Sullivan or Madigan to back down, or the Administration will punt to the Clinton team. Either way, litigation is nearly certain. "I'll be able to put my great-grandchildren through college on this," smirks an industry attorney.

There's plenty of blame to go around for this mess. But the bottom line is that the FDA's scheme is a good one. People might think twice about blithely scarfing down two hot dogs and two ounces of potato chips if the labels

clearly state that such a modest snack provides 75% of the recommended daily intake of fat. And while it's true that some people need more than 2,000 calories a day, consumers can figure that out for themselves. You shouldn't need a doctorate and a calculator to figure out a food label. With the FDA's proposed rules, you don't.

OAT CEREAL

The entire label is the FDA's proposal. The Agriculture Dept. proposes only blue area

NUTRITION FACTS			
SERVING SIZE	1 1/4 CUPS (28g)	CALORIES	110
SERVINGS PER PACKAGE	7	CALORIES FROM FAT	18
	Amount per serving	% daily value*	Daily value*
TOTAL FAT	2.2g	3%	.65g
SATURATED FAT	1.1g	5%	.20g
CHOLESTEROL	—	—	.300mg
TOTAL CARBOHYDRATE	20.0g	7%	.275g
SUGARS	1.7g	—	—
DIETARY FIBER	2.2g	8%	.25g
PROTEIN	4.0g	5%	.75g
SODIUM	240.0mg	10%	2,400mg
POTASSIUM	105.0mg	3%	3,500mg

*The daily value is a reference based on a 2,000-calorie diet and may vary depending on your calorie needs. More complete information on daily values is available from 800 XXX-XXXX

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In Business This Week

EDITED BY JOAN WARNER

THE YEAR OF THE CONGRESSMOM

If you were to make a composite portrait of the 47 women who won House seats on Nov. 3, you'd draw a 45-year-old, pro-choice working mother. The new legislators come from a variety of professions, but the mothers among them (83%) have one thing in common: Their kids are mostly grown, suggesting that running for office and child care don't mix. A breakdown:

MARITAL STATUS

Married **68%** Single **17%**
Divorced **11** Widowed **4**

AGE

30-40 **15%** 51-60 **32%**
41-50 **30** Over 60 **23**

CHILDREN'S AGES

Over 23 **86%** 5-15 **9%**
15-23 **4** Under 5 **2**

ABORTION VIEWS

Pro-choice **91%** Democrat **74%**
Anti-choice **9** Republican **26**

DATA: NATIONAL WOMEN'S POLITICAL CAUCUS

PETER COHEN IS MAKING WAVES AGAIN

► He's ba-aaack. Peter Cohen, former chairman of Shearson Lehman Brothers, has resurfaced as vice-chairman of Republic New York and chairman of its new securities unit. Republic's largest shareholder, Edmond Safra, has had a notoriously stormy relationship with Shearson parent American Express.

Now, Safra apparently wants Cohen to help expand his bank's U.S. presence with Republic New York Securities, which will compete with Shearson. Cohen told BUSINESS WEEK that he's not planning to go head-to-head with his former employer. But

he'll be working with several former Shearson colleagues, including Louis Lloyd, who is now the securities unit's president.

MAXWELL'S EMPIRE WAITS FOR MORE BIDS

► Texas billionaire Robert Bass finally has put Robert Maxwell's media empire into play. An investor group led by Bass offered \$1.2 billion for Macmillan and Official Airline Guides, the cornerstones of Maxwell's U.S. holdings. The British administrator handling the properties rejected the bid as inadequate. Now, media mavens are waiting for other long-rumored suitors to make their moves. Kohlberg Kravis Roberts' K-III is a leading candidate, as is British publisher Reed International. Bass insiders say they may decide to boost their offer after meeting with Maxwell creditors.

GOT A SMELLY NIKE LYING AROUND?

► Nike faces yet another boycott threat, this time from a Washington group that wants it to make its top-of-the-line shoes in the U.S. instead of importing them from Asia. The Made in the U.S.A. Foundation, with the support of the AFL-CIO, is spending \$1 million on ads in 20 news-

UH, SORRY ABOUT THE MESS

Security is tight at Bill Clinton's still-vacant transition headquarters. Armed guards repel visitors to the 12th floor of 110 Vermont Ave. NW. But BUSINESS WEEK has learned the walls inside need paint, the refrigerator holds a rich ecosystem of molds and fungi, and false fire alarms drive everyone from the building twice a week. How do we know? The Clintonites are inheriting the office formerly occupied by BW's Washington bureau.

Clinton says he wants his team to act quickly to fill new posts. He obviously hasn't ridden the elevators, which will make the first 100 days seem like a 40-yard dash. The President-elect also prides himself on his team's diversity and the authority he has invested in women. Too bad the doors to the stalls in the ladies' room don't close. And hey, Bill, that cafeteria in the basement? It's owned by Willard Marriott, a staunch Republican. If we were you, we'd avoid the Inaugural Special.

papers across the U.S. urging readers to send their "old, dirty, smelly, worn-out Nikes" to Chairman Philip Knight. Nike, which earned \$329 million on \$3.4 billion in sales last year, says it does plenty of U.S. manufacturing.

LIFE WITHOUT FATHER IS TOUGH AT MACY'S

► Bankruptcy pressures are one way for companies to send the boss's kid packing. Ex-Macy's CEO Edward Finkelstein, who resigned under pressure in April, had secured his two sons lucrative jobs before he left. But life without

Dad can be rough: Finkelstein's younger son, Mitchell, recently resigned as president and managing director of Macy's product development in Asia. In the year ended last August, Mitchell made \$400,000, on top of a \$142,000 overseas housing allowance. A Macy's official confirms that Mitchell would not be replaced. Finkelstein's oldest son, Daniel, is staying on as chairman of Macy's West. Dan made \$553,000.

INSIDER INDICTMENTS AT COOPER

► Four years ago, Gary Singer and his family helped take over Cooper Cos., a New York contact-lens maker, claiming that management was milking the company. But on Nov. 10, Singer and the company got indicted on insider-trading charges. Singer, 37, who resigned as co-chairman last summer when the federal probe began, allegedly bribed a Boston mutual-fund analyst to get advance word of the fund's junk-bond purchases. Then, using family and Cooper money, Singer bought the bonds, turning a \$3 million profit, prosecutors say. The company and Singer deny any wrongdoing.

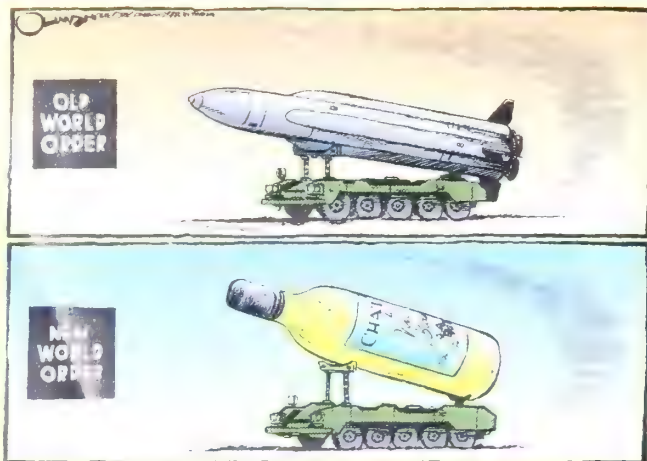


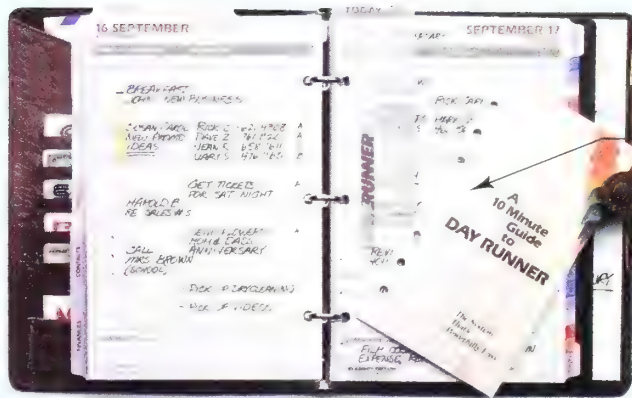
fig. A



SCIENTISTS
say people use a
mere 5% of their
mind's capacity.

(A Human Brain.)

fig. B



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WANDERING IN THE WILDERNESS, THE GOP LOOKS TO DOLE

Bob Dole is sounding a bit confused these days. At a Nov. 10 press conference, the Senate Minority Leader said: "57% did not vote for Clinton.... He has no mandate." A few minutes later, the Kansas Republican declared: "Our purpose is not to obstruct. Our purpose is to be constructive where we can, thoughtful in every case, and helpful from time to time."

Truth is, Capitol Hill Republicans don't know what to do about the challenge created by the Democratic sweep. Does the GOP respond to public demands to end gridlock by cooperating with the Clinton Administration? Or do Republicans revert to form and wage war against Democrats?

It's not a happy choice, but the GOP can't be choosy. The White House is gone. Senate Republicans are down to 41 votes, just above the minimum needed to sustain a filibuster. And a golden opportunity to gain seats in the House fell short. "You will see lots of shouting, just like you did [when the GOP was heavily outvoted] in the '60s," says American University historian Allan J. Lichtman. "But the Republicans can't prevail. There are too few of them."

Worse, the GOP is deeply divided. House Republicans, shoved around by the Democrats and ignored by the White House for a decade, are split by a feud that's ready to explode. On one side is the conciliatory House Minority Leader Robert H. Michel of Illinois. On the other, the House pit bull, Minority Whip Newt Gingrich of Georgia.

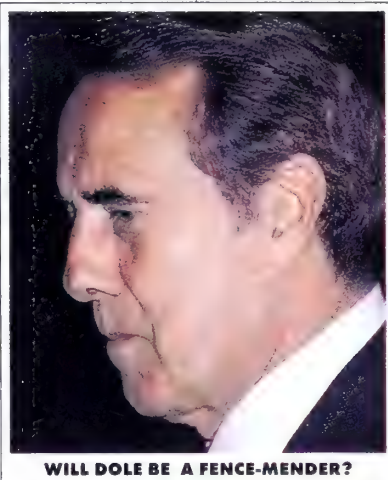
Both men are likely to keep their jobs when the GOP caucus convenes in December. But the venom will come out in a fight for the No. 3 job. Conservative Representative Richard Armey of Texas will try to unseat moderate Jerry Lewis of California as chairman of the House Republican Conference.

While House Republicans sharpen their knives, Dole has moved into the vacuum as the party's spokesman. For four

years, Dole was a loyal lieutenant to a President who beat him in a bitter fight for the 1988 Republican nomination. Suddenly, Dole seems reborn. Says one former Dole campaign official: "I can't tell you how happy he is to finally get George Bush out of his life."

And Dole, a wily partisan, may be the GOP's best hope for finding a way out of the post-election wilderness. For now, the best course may be to avoid commitments. "Republicans will adopt a wait-and-see approach in the early days of the Administration," predicts Thomas C. Griscom Jr., a top aide to former Senate Majority Leader Howard H. Baker (R-Tenn.). "You want to get a sense of whether Clinton's own party will support the President before you join in."

MORE POWER. Early on, the GOP will try to drive wedges between the new President and his erstwhile Democratic allies on the Hill. Dole has already challenged Clinton to push for a line-item veto. Clinton (and most Republicans) support the concept; Democratic congressional leaders oppose it. If Clinton pushes the idea and it passes, Dole could isolate the liberals and forge a bipartisan centrist majority that would give Republicans power well beyond their paltry numbers. If the Democratic leadership beats the proposal, the GOP can just watch



WILL DOLE BE A FENCE-MENDER?

Hill Democrats fight with the White House.

Democrats hope that Dole will be as cooperative as another Senate Minority Leader, Everett Dirksen (R-Ill.), who helped his friend Lyndon Johnson pass the 1964 Civil Rights Act.

But Dole remains a very formidable adversary. Says Republican consultant Lisette McSoud: "Bill Clinton should not underestimate how important a person he is. Clinton has to work with Dole if he hopes to succeed. Dole doesn't have to work with Clinton."

By Richard S. Dunham in Washington

CAPITAL WRAPUP

HEALTH CARE

When the debate over national health-care reform begins in earnest, the health insurance industry's biggest trade association may be much less of a player than expected. In recent weeks, the Health Insurance Association of America has lost two of its biggest members, Aetna Life & Casualty Co. and Metropolitan Life Insurance Co. With membership renewals coming up, Travelers Corp. is also considering a pullout, and Prudential Insurance Co. may follow. And the last members of the "Gang of Five" big health insurers, CIGNA Corp., quit the group last year.

The problem is a deep split between the biggest companies and smaller insurers. The Gang of Five see managed-care networks as the wave of the future and would like any reform legislation written to encourage their use. The smaller companies think that they don't have the wherewithal to set up broad networks and fear they would be frozen out of the sort of national system that their rivals envision.

TURNABOUTS

When George Bush became an underdog in his reelection bid, he turned for solace to British Prime Minister John Major, whose Conservative Party won a stunning upset in na-

tional elections last spring. Now, Major's Labor rivals are returning the compliment. The weekend after the election, a Labor Party delegation flew to Little Rock. Their goal: learning how Clinton strategists positioned their man to win back Reagan Democrats and applying the lessons to British politics. In another sign of a growing special relationship between the Democrats and Labor, party leader John Smith gave Clinton a rousing speech of congratulations in the House of Commons. He twitted Major for the campaign "help" his advisers gave Bush. Major sent Clinton a note, but did not speak of the U.S. elections until Smith raised the subject.



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VOLVO AND RENAULT: MARRIAGE MAY BE THE ONLY ANSWER

As Volvo reels and Renault heals, a closer union could help both in the turbulent European market

France's Renault and Sweden's Volvo, two of Europe's leading carmakers, are in the throes of change, as they adjust to recession, market opening, and rising costs. With sales plunging, Volvo is undergoing major surgery. Buoyed by new models, Renault is on a profitable course but must reduce costs even more. The two companies now own stakes in each other, and the answer to their problems may be in a merger.

VOLVO

THE UNKINDEST CUTS OF ALL

Sweden's July holiday season is traditionally sacrosanct, and business grinds to a halt. But Sören Gyll, the new president of Volvo, just kept on working, even though he was hardly in his new office during his first 10 weeks in the job. He whisked around Sweden and the rest of the world to get a grip on the company's troubled auto and truck units. He paced factory floors and solicited advice from customers, dealers, union leaders, and engineers.

The message from the plain-spoken executive is coming clear: No more business-as-usual at Volvo. The 51-year-old Gyll has seen enough and is ready to act. He has launched a sweeping survival plan, dubbed "Volvo '95." At the same time, he continues as chairman of Procordia, a big Swedish food and drug company of which Volvo owns 42.7% of the voting shares.

BOLD MOVE. Vital to Gyll's plans for Volvo are more extensive links in components and products with France's Renault, perhaps leading to a merger. While the plan includes sharp



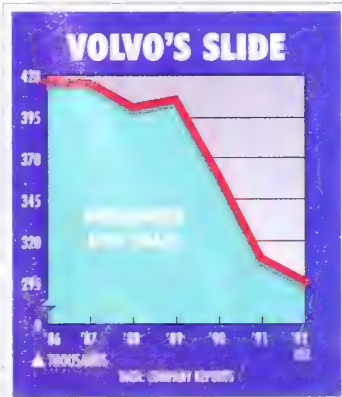
GYLL'S PLAN TO CUT CAPACITY HAS BEEN VETTED BY UNION OFFICIALS, WHO SEE NO ALTERNATIVE

cuts in Volvo's work force, it also calls for revitalized sales and marketing operations. Above all, Gyll is intent on waking up a complacent operation whose auto and truck units are gushing red ink. Volvo now is being kept afloat largely by dividends and other income from its Procordia stake and a 20% holding in Renault. "There is a dramatic new market situation, and we have less growth in front of us," warns Gyll, who over the past 15 years, has overhauled a Swedish steelmaker and refocused Procordia. He joined Volvo in mid-

May, just after a Procordia-Volvo merger proposal flopped.

The new president's boldest move is also Volvo's biggest break with history. It's a strong sign that Gyll is eclipsing Volvo Chairman Pehr Gyllenhammar, 57, in the running of the company. In early November, Gyll announced that 1,633 jobs will be lost with the closing of Kammar and Uddevalla, two Volvo assembly plants that pioneered new work patterns. Especially dear to Gyllenhammar, Uddevalla is being closed just three years after it opened. One worker showed his dismay by setting Volvo plant flags at half-mast.

But even union officials see no alternative to cutting overcapacity, now that Volvo sales could be as low as 290,000 this year, down 31% from their 198



weak (chart). The decline is partly because two-thirds of Volvo's sales come from just three markets—the U.S., Britain, and Sweden. Concedes Andrej Krugly, a union representative on the Volvo board: "We tried to find faults [in the program], but we couldn't see any."

There's likely to be more restructuring now that the new center-right government is refusing to bail projects out. The Uddevalla plant, for example, got tens of millions of dollars from the Social Democratic Party. Those days are over. Volvo is already cutting 2,000 workers in its truck unit, and it may be forced to sell off stakes in some three frozen companies to raise cash.

Volvo's plight mirrors the woes of other niche producers. Only days after Volvo's plant-closure announcements, smaller Swedish-based rival Saab Automobile, which is 50%-owned by General Motors Corp., unveiled nine-month losses of \$222 million. Saab, too, is cutting its work force.

To regroup, Gyll plans "much more aggressive marketing," portending a major shakeup of dealer and customer-service operations. There won't be any departure from Volvo's traditional, boxy styling, but quality and safety, two key virtues, will get renewed attention.

Gyll plans to spearhead his marketing drive by pushing the 850 model, launched in the U.S. on Oct. 24. Priced at \$24,100, Volvo's first-ever front-wheel-drive car faces formidable competitors, including Infiniti, Lexus, and BMW. And although dealers seem enthusiastic, they note that many of the 850's tire-kickers are existing Volvo owners. That spells bad news for gaining market share. If the 850—the result of a six-year, \$2.7 billion spending program—stalls, Volvo's problems will accelerate.

Ironically, it was Renault that was faltering when the two bought into each other two years ago. Now, Renault is beginning a turnaround. But Volvo stands to lose \$270 million on car and truck operations on 1992 sales of \$10.3 billion, says John Lawson, research director at DRI/McGraw-Hill in London. The loss, he says, roughly equals Volvo's income from holdings in Renault and Procordia.

NO DEAL. Volvo and Renault are working on joint projects. Renault is providing components for Volvo's small-car joint venture with Mitsubishi Motors Corp. in the Netherlands. The two are also swapping engines. Their dealers are likely to share market research and advertising purchases. And they're working on a new luxury car for the end of the 1990s.

Even so, Volvo's perilous financial condition leaves Gyll with an additional headache—what to do with the controversial Procordia holding. Gyll moved to Volvo after Gyllenhammar's scheme to

merge the two companies was blocked by a furious Swedish government, which holds 40.4% of Procordia shares and wants to privatize the company. Volvo executives and union officials see Procordia's rich cash flow as a way to balance Volvo's cyclical earnings. Yet others close to the food and drug company see little benefit in a tieup.

At this point, bankers say a Volvo bid would be difficult to finance anyway. In fact, there's speculation that Volvo could sell its stake, now that its Procordia share, valued at \$3.9 billion, is worth more than all of Volvo. Should that be done, it could leave straight-talking Gyll doing what he does best—running a well-focused company.

By Richard A. Melcher in Gothenburg

RENAULT

READY, SET, HERE COME THE JAPANESE

Chairman Louis Schweitzer of French auto maker Renault is remarkably serene, given the times. After all, the witching hour for Europe's car industry is finally here. This fall, Honda and Toyota are starting to roll cars out of spanking new plants in Britain, joining Nissan, which arrived earlier. The transplanted production frees the Japanese powerhouses from import quotas and will touch off a furious battle for market share. For most Europeans, the timing couldn't be worse. Car buying has been falling for two years and may plunge even faster next year.

That doesn't faze Schweitzer, 50, a former civil servant and grandnephew of humanitarian Albert Schweitzer. "The Japanese are not going to grow at our

expense," he vows. Amazingly enough, he may be right. Once regarded as Europe's automotive basket case, Renault has cut costs and dramatically improved quality. It is now the top import in Germany, where an independent customer-satisfaction survey ranks Renault ahead of all German makes and second only to Honda. In this year's first half, Renault's profits quintupled, to \$1 billion, while its EC market share rose from 9.8% to 10.5%.

HEAVY BURDEN. But while there's no doubt Renault has begun a Chrysler-like turnaround, it still needs to catch the Japanese on production costs. Schweitzer figures Renault's costs are still 30% above the most efficient Japanese factory outside Japan, Honda's benchmark plant in Marysville, Ohio. "It takes time, but we'll get there," he says.

Another problem is debt. In five years, Schweitzer has trimmed it to \$3 billion, from \$10 billion. Yet the burden is still too heavy to allow Renault to build new plants to fight the Japanese, as Volkswagen and Fiat have done.

Instead, Renault has been imitating Japanese management methods to remake itself. Product planning, for example, is now tightly coordinated, speeding work and cutting glitches. The result: sexy new cars. One was unveiled last month, a tiny van-like car called the Twingo, which goes on sale in March for about \$10,000. This rival to Japanese minicars is "brilliant, it could become a cult car," says Daniel P. Jones, professor of automotive economics at Britain's Cardiff Business School. Previously, he says, "Renault's cars were boring, and quality was terrible."

Another winner is the Safrane, a \$40,000 luxury model that is a larger successor to the R25. Launched just last May, it now has a waiting list. Germans are snapping up the compact R19 and



Renault's big Espace.

rules for suppliers and set up just-in-time delivery, cutting inventories from 10 days to 2. These may seem modest steps, but the results are big: Productiv-

last year—with 6% fewer workers.

But unless costs can be cut considerably more, Renault's fate might still be decided in Tokyo's boardrooms. "If the Japanese decided to flood Europe, they could easily undersell us," admits Philippe Gamba, Renault's marketing director. An executive of a U.S. auto company in Europe thinks Japan's market share will double, to 22%, by decade's

Meanwhile, Schweitzer will try to close the cost gap further. Teaming up

merged purchasing and quality control. They're cooperating in other areas, ranging from engines to development of a new luxury car. But given Volvo's problems, some observers think Renault could face some nasty surprises (page 52). Still, the alliance is solid on the alliance.

He has a good reason to feel confident. But while France's struggling carmaker may be firing on all cylinders at last, it still needs some tweaking to keep up with the Japanese.

By Stewart Toy in Paris

SAUDI ARABIA

WILL IRAN OR SAUDI ARABIA BLINK FIRST?

This question will be especially touchy at OPEC

Most oil probably is not among President-elect Bill Clinton's war is yesterday's news, and oil is increasingly cheap and plentiful. But trouble is brewing again in the vast oil patch

thousands of wells pump almost one-third of the planet's total oil output.

As never before, the OPEC oil cartel

strain will be evident on Nov. 25, when

cuts. To increase revenues and their are spending billions to boost production capacity—and each is pumping record amounts of oil. Thanks to that flood of black gold, OPEC output is now at a 12-year high. And in the background, millions of barrels of Iraqi oil are being kept off the market by United Nations sanctions that one day will be removed. The result: The price of benchmark

GOOD NEWS? Although most oil behemoths profess the need to cut production to bolster prices, neither wants to be the first to budge. And few analysts expect

cope with a steep seasonal drop in demand for OPEC oil expected early next year. To get the upper hand, each one



SAUDI REFINERY: BORDER SQUABBLES ARE FUELING TENSIONS

new executive director of the London-based Center for Global Energy Studies. "Yet if OPEC

will collapse," he predicts.

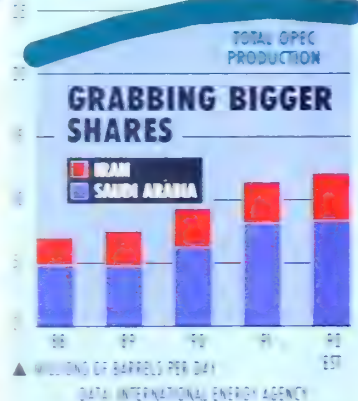
consumers, collapsing prices could stoke the simmering political rivalries in the gulf. Complicating the equation this time

in the U.S.-Saudi relationship, now that George Bush is leaving office. Since the mid-1980s, Riyadh has kept the U.S. awash in cheap oil. This policy has made

oil to the thirsty U.S. market where it accounts for a fourth of such imports.

Now, Saudi oil officials worry that Clinton would change the ball game. The Clinton team's emphasis on environmental problems, Riyadh thinks, will inevitably result in—and, eventually, imported oil—being made a likely target. And the need to reduce the federal deficit will make some kind of energy tax extremely attractive. "For the first time since the Nixon era," says Pierre Terzian, head of Paris-based Petrostrategies, "we will have a U.S. President who really wants to reduce dependence on imported oil."

POWDER KEG. Meanwhile, the gulf is potentially more explosive than ever. Iran and Saudi Arabia are spending billions on arms at the same time. Qatar, Bahrain, Iraq, Saudi Arabia, and Yemen are all squabbling over boundaries, while Iran claims a piece of Qatar's offshore North Dome Field, the world's largest hoard of natural gas. In recent weeks, skirmishes between Oman and the United Arab Emirates and between Qatar and Saudi Arabia have resulted in bloodshed. "That's why it's going to be difficult for these countries to agree on oil quotas when they are all fighting like mad dogs over their borders," says a French oil executive. And that's one more reason Clinton may have to give more attention to the gulf than he thinks.



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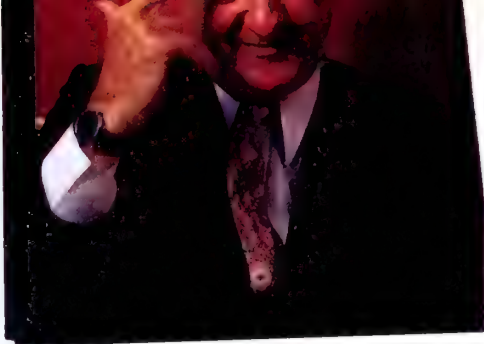
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GERMANY: HOW LONG CAN KOHL CONTAIN THE ANGER?

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OR THE FIRST TIME SINCE 1945, the German people are angry with their government. The anger is directed at Chancellor Helmut Kohl, who has been in office since 1982. It is a anger that is not just about the economy, but about the government's handling of the Holocaust and the role of the German people in the Nazi regime.

The anger is not just about the economy, but about the government's handling of the Holocaust and the role of the German people in the Nazi regime. It is a anger that is not just about the economy, but about the government's handling of the Holocaust and the role of the German people in the Nazi regime.



BERLIN: A PROTEST AGAINST RACISM TURNED JOY

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The anger is not just about the economy, but about the government's handling of the Holocaust and the role of the German people in the Nazi regime. It is a anger that is not just about the economy, but about the government's handling of the Holocaust and the role of the German people in the Nazi regime.

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GLOBAL WRAPUP

CHINA

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MEXICO

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THE NETHERLANDS

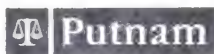
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SID FELTENSTEIN IS HAVING IT HIS WAY

And he's winning over Burger King's biggest critics—franchisees

When Sidney Garcia visited Burger King's headquarters in Miami, he was not alone. He was accompanied by his new marketing chief, Sidney J. Feltenstein. Feltenstein visited Garcia's 41 Orlando-area restaurants in January. Feltenstein spent so much time talking with workers and customers that he didn't reach Garcia's office until almost midnight. A long day's work, to be sure, but it won over a skeptical Garcia, who says of Feltenstein, "He listens."

Listening is a singular achievement in the world of Burger King, where advertising flops and franchisee revolts have been as much a company trademark as flame-broiled burgers. Feltenstein, 51, is the 9th marketing chief in 10 years at the Miami-based fast-food chain. But since he came over from Dunkin' Donuts Inc. in October, 1991, Feltenstein has successfully avoided the noisy feuding that usually marks a Burger King marketer's tenure. Instead, he has quietly launched a sweeping reorganization of marketing strategy, pushed fast into table service at dinner, and overseen the first ad campaign in almost a decade that franchisees actually like. **'TO THE EDGE.'** Feltenstein's

sharply with the approach of his predecessor, Gary L.

what executives say were friendly teams. Langstaff in-

motions as a Kids Club, to build brand loyalty among children, and deals with the Ninja Turtles. But franchisees resented his blustering style and aggressive tactics. Says Memphis-based franchisee Joe Mindler: "Gary wanted to take us to

Langstaff defends his blustering act. "I didn't have the luxury of getting every-

had a powerful brand that had been tarnished for five years." But he admits the short-lived "Sometimes you gotta break the rules" ad campaign he sponsored united franchisees against him. They caught flak from parents who felt the tag line sent the wrong message to their kids.

Enter Feltenstein, who once did a stint as a marketer at Procter & Gamble Co. before putting in 19 years at Dunkin' Donuts. As head of marketing, Feltenstein had earned the respect of the doughnut vendor's numerous franchisees. He cooked up such new products as "mini" doughnuts and expanded distribution to such unorthodox outlets as 7-Eleven Stores. But he also knew his doughnut days didn't count for much in the home of the Whopper. "The franchisees felt I didn't know the hamburger business," he says.

To allay fears, he spent several

months visiting stores. And with Chief Executive Barry J. Gibbons' backing, Feltenstein completely rewrote his job description. While marketing at Burger King historically meant solely advertising and promotion, now store design, product development, and other functions report to him. Food research, a key area that used to report to the quality-control office, now answers to Feltenstein. And borrowing from P&G's playbook, which assigns management teams to each brand, Feltenstein has created three teams to handle breakfast, lunch, and dinner as three different segments to market separately.

AT YOUR SERVICE. The goal is to speed up Burger King's rollout of new products and services. It seems to have

worked with dinner service, an idea first suggested by franchisees. Feltenstein pushed for a formal test of dinner service in January, then quickly went national in October to 5,700 U.S. locations, where a waiter will now serve evening customers such dishes as chicken breasts and fried shrimp at their table. In contrast, McDonald's Corp. has been testing

various dinner formats for more than a year.

Burger King's move has promoted a spurt of publicity, much of it tongue-in-cheek. Even Jay Leno paid a visit to Burger King as part of a *Tonight Show* segment. Feltenstein is unruffled. "It

has piqued people's interest," he says, noting that dinner sales are above projections—though he won't be specific. Costs are low, too, involving \$500 in new equipment per store and one extra staffer.

Backing the dinner rollout is a new national ad campaign by agency D'Arcy Masius Benton & Bowles Inc. that first aired during the World Series. Called **BE TEEVEE** and featuring MTV star Dan Cortese, the 30-second spots are filmed in Burger King restaurants with Cortese interviewing customers and crew members in a frenetic, ad-libbed teenspeak. The ad plays off the "Your Way Right Away" tagline and highlights broiling, long a Burger King marketing staple. The quick-camera angles and forma-

A BURGER KING COMEBACK?

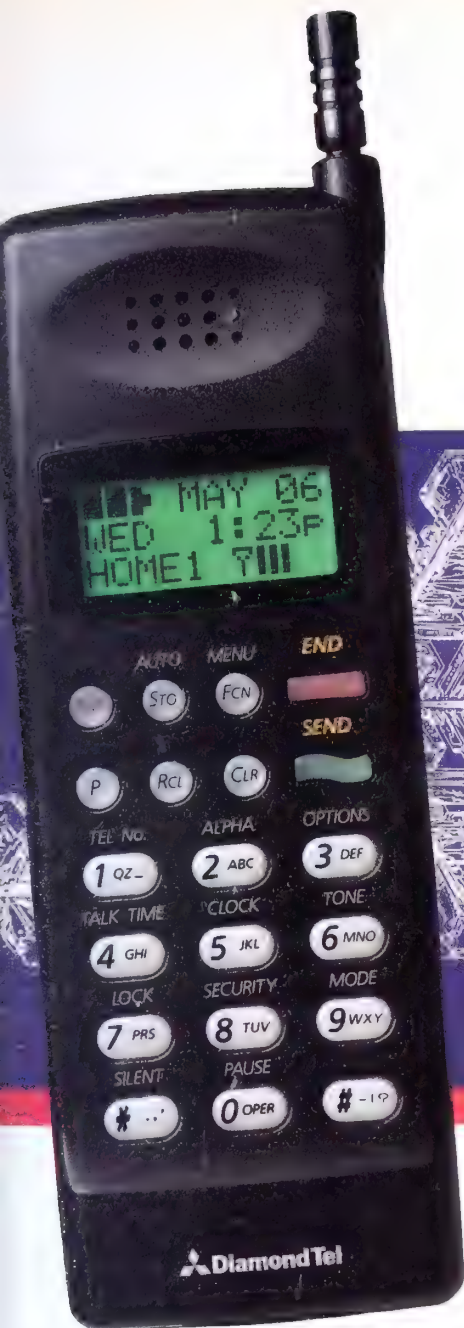


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It begins by learning to share.

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Canon

were designed to attract the 18-to-34-year-old crowd, the biggest fast-food market segment.

Results won't be known until early next year. But some critics already say the new campaign won't do the trick. The Cortese ads "don't drive the brand into the mind," says Al Ries, a marketing consultant based in Greenwich, Conn., who has done work for Burger King.

In his view, the chain has yet to solve its long-standing problem: It is perceived as a runner-up to McDonald's, but it has done little to capitalize on its second-place position, as Pepsi-Cola and Avis Inc. have done in their industries. Burger King's share of fast-food burger sales slid from 21.3% in 1986 to 19.1% in 1991, according to restaurant consultant Technomic Inc. Slower-moving table service, Ries adds, can only dilute a chain's image as a fast-food restaurant. Dinner service is also an operational problem: It's not designed to reach drive-through customers, who make up 50% of Burger King's business.

APPLAUSE. But Feltenstein's approach is quelling complaints from some of Burger King's staunchest critics—its own franchisees. Tom Walsh, a franchisee in Sioux Falls, S.D., liked the speed of the dinner rollout and applauds the Cortese ad campaign. "It's in the restaurant, it's product-focused, it positively enhances our people," he says. And he's even feeling upbeat about overall prospects: "A lot of us believe we are moving north-bound [on sales]." Burger King won't release numbers, but look for revenues, profits, and same-store sales to be up over last year, says Burger King chief Gibbons.

The new confidence among franchisees heartens Edouard DeBoisgelin, an analyst with Merrill Lynch Europe who covers Grand Metropolitan PLC, Burger King's British parent. He expects Burger King operating profits of \$267 million on sales of \$2.47 billion for 1992, compared with 1991 profits of \$247 million and sales of \$2.3 billion. Not a sudden surge, but it reverses the disheartening slide for Burger King, whose annual sales per restaurant have slipped in recent years (chart, page 64).

Meanwhile, Feltenstein is eager to test his skills on other projects, such as selling burgers in kiosks in airports and truck stops, and an experiment in stripped-down, two-lane, drive-through restaurants catering to motorists only. He has also launched a program to clean up the landscapes and exteriors of Burger King locations. After listening hard to franchisees, he thinks they're ready for the new initiatives. And for once, Burger King franchisees think their marketing boss is right.

By Gail DeGeorge in Miami

Media



NEWSPAPERS

THE CITY SLICKERS TAKING BACK THE 'BURBS

Metropolitan newspapers are fighting the upstarts—and winning

When Jay Smith scanned the horizon in Atlanta's peaceful northeastern suburbs a few years ago, he saw only war clouds. The New York Times Co. had just bought the *Gwinnett Daily News*, a well-respected afternoon paper in affluent Gwinnett County. For Smith, publisher of the *Atlanta Journal and Constitution*, that could only mean Times Co. planned to repeat the familiar battle between an upstart suburban paper and its big-city rival.

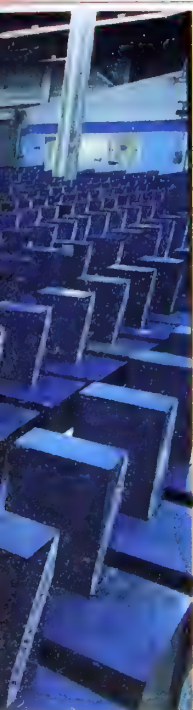
Sure enough, the Times launched a frontal assault. It slashed the subscription and newsstand rates of the *Daily News*. And it poured \$40 million into a new color-printing plant. Suddenly, the *Journal and Constitution* faced the prospect of losing its fastest-growing and most prosperous suburb—much as the *Los Angeles Times* had lost Orange County a decade earlier.

But the battle didn't follow the usual course. Smith fought the *Daily News* tooth and claw, matching the rate cuts and offering extra coverage of Gwinnett County. At one point, he personally handed out free copies of the morning

Constitution to Gwinnett motorists. In September, after five years and at least \$48 million in losses, Times Co. shut down the *Daily News*. "The metros have become more aggressive," says Seymour Topping, director of editorial development for Times Co.'s regional newspaper group. "They've committed considerably more resources."

FLIP SIDE. It shows. For the first time in years, metro dailies are successfully beating back suburban rivals. The *Chicago Tribune* recently put down a challenge from Lerner Newspapers Inc., a chain of weekly papers north of the Windy City. And the *Los Angeles Times* is reclaiming circulation from the aggressive *Orange County Register*. The *L.A. Times* has been caught on the flip side of this trend, too: On Nov. 6, it announced the closing of its San Diego edition, which has failed to dislodge the *San Diego Union-Tribune*.

Of all the fallout from the media recession, the resurgence of metro papers may be the most remarkable. Many experts had written off the future of big-city papers in the 'burbs: They were



Rest in peace:
After five years
and at least
\$48 million in
losses, the
*Gwinnett Daily
News* succumbed
to the *Atlanta
Journal and
Constitution's*
aggressive
counterassault

too slow to adopt such reader-friendly innovations as color. And they would never match the suburban papers' blanket coverage of local news. Because the metros were losing these affluent readers and the advertisers who covet them, the suburban papers threatened the very future of some big-city papers.

But metro dailies are challenging the conventional wisdom. By mastering the tricks of niche marketing—customized editorial content and zoned distribution—big papers have been able to out-hustle even well-financed suburban rivals. These are gains that will last even after the ad market picks up, says John Morton, a newspaper analyst at Lynch, Jones & Ryan. As a result, metro papers "can be pretty formidable competition for smaller papers in their regions," says James N. Rosse, CEO of Freedom Newspapers Inc., which publishes *The Orange County Register*.

TEN CENTS A GLANCE.

The battle for Atlanta is a case in point. Cox Enterprises Inc., owner of the *Journal and Constitution*, regarded the *Daily News* as a threat to its franchise from the moment Times Co. bought it in 1987. Small wonder: Within two years, Times boosted its circulation from

28,000 to nearly 50,000 copies, mostly through cheap subscriptions. Upping the ante further, the *News* switched from afternoon to morning publication in 1988. The paper, which traces its roots back to 1858, also slashed its ad rates and dropped its newsstand price from 25¢ to a nostalgic 10¢.

The *Journal and Constitution*, which publishes its morning edition as the *Constitution* and its afternoon paper as the *Journal*, kept its rates similarly low. Equally important, Smith expanded a weekly section, called Extra, that focused only on Gwinnett news, into a daily section. To boost circulation, he assembled a data base with the name of every family in Gwinnett County. Those who didn't subscribe to the paper were called several times a year. All this cost Cox an estimated \$5 million a year. But the paper's Gwinnett circulation ballooned, from 31,000 to 60,000 copies. "Just because you've been around for 100 years is no guarantee you'll be here forever," says Smith.

TOOTH AND NAIL. The stalemate might have continued but for the ad recession. Initially, Times didn't mind spending millions to battle the *Journal and Constitution*. Indeed, the *News* even expanded to neighboring DeKalb County in 1991. But then ad lineage plunged, and it looked as though the losses might go on for years. The Times Co. finally wrote off the investment by taking a \$48 million pretax charge to its third-quarter earnings. Says Topping: "If the Cox people were determined to drive us out of that market, there's no telling to what lengths they would have gone."

The battle for Chicago's suburbs proceeded along similar lines, though with some key distinctions. For one thing, the Lerner newspapers are weeklies and were originally distributed free. Pulitzer Publishing Co. bought Lerner in 1985,

because it saw a parallel to its hometown, where a rival suburban chain had taken a bite out of its flagship *St. Louis Post-Dispatch*. By reducing the number of papers from 57 to 15 and converting some to paid circulation, Pulitzer hoped to inflict similar damage.

Unfortunately for Pulitzer, it bought the chain a year after the *Trib* made a commitment to go after its own suburbs. First, the paper began producing five zoned sections with news about specific suburbs, such as fast-growing Du Page County. Next, it added zoned news to features such as its Tempo lifestyles section. "We had to fine-tune a product for them that would be what the *Chicago Tribune* historically has been for residents of the city," says Editor Jack Fuller. As a result, the *Trib's* daily suburban circulation jumped 1.6% in the most recent six months, even as its city circulation declined, according to the Audit Bureau of Circulations.

ZONING OUT. Advertisers get even more choice than readers. They can run ads in 9 to 11 zoned editions, depending on the section. And starting last year, advertisers could slip inserts into editions of the *Tribune* aimed at any of the 360 Zip codes in the Chicago metro area. This makes the *Trib* a good buy even for small local companies, such as bakeries or auto-parts stores. Those advertisers are the lifeblood of small weekly chains. Pulitzer won't say, but insiders figure Lerner was losing \$1 million a year. In October, the company sold off some of Lerner's assets to an employee group for an estimated \$4 million.

Now, other publishers are taking a cue from Chicago and Atlanta. *The Philadelphia Inquirer* just converted its twice-weekly zoned section for readers in southern New Jersey into a daily section. It plans to add four more daily zoned sections for readers in Pennsylvania suburbs. "If readers are going to take only one paper, we have to make damn sure it's us," says *Inquirer* Editor Maxwell E. P. King.

Such urgency used to be rare in the executive suites of major metro newspapers. But now that publishers sense an opportunity, they're scrambling to reclaim the same bedroom communities that used to keep them awake at night.

By Mark Landler in New York, with James E. Ellis in Chicago and Chuck Hawkins in Atlanta

HOW THE METROS MUSCLED IN

- ▶ Added daily section with Gwinnett County news
- ▶ Offered cut-rate subscriptions and lower ad rates
- ▶ Promoted paper through data base of Gwinnett residents

- ▶ Started five separate news sections for suburbs
- ▶ Added suburban news to regular feature sections
- ▶ Enabled advertisers to place inserts in editions aimed at 360 individual Zip codes



DATA: COMPANY REPORTS

LILLY LOOKS FOR A SHOT OF ADRENALIN

The drugmaker tries stakes in startups to fill the new-product gap

A former minor-league baseball player, Vaughn D. Bryson became Eli Lilly's chief executive last November, he spent a week at a baseball "fantasy" camp in Vero Beach, Fla. The former college first baseman, who played pro for a summer before joining Eli Lilly & Co. as a salesman in 1961, picked up pointers from such former Dodger greats as Duke Snider, Roy Campanella, and Steve Garvey—and posted an impressive .333 batting average. As Bryson modestly explains: "Everything's a hit in fantasy camp."

If only the same were true for Lilly. As he celebrates his first anniversary as CEO of the ninth-largest pharmaceutical company in the world, Bryson has a long way to go before he can enjoy the same kind of glory he achieved at the plate. After years of stellar returns, Lilly's tradition-bound, slow-moving management style is beginning to take its toll.

PAST IS PROZAC. With-

expected in the near future, Lilly's existing line is looking tired. After surviving allegations that its top-selling Prozac induced violent behavior, Lilly's antidepressant drug is now facing growing competition. What's more, Lilly will lose key patent protections on its No. 2 product, the antibiotic Cefclor, in December. These two compounds alone account for nearly a third of Lilly's \$6.3 billion in estimated 1992 sales.

If that weren't bad enough, Lilly's medical-device and diagnostics businesses, once the company's fastest-growing endeavors, have run afoul of regulators. Last May, Lilly suspended production of its emergency heart defibrillator after the Food & Drug Administration turned up a number of manufacturing viola-

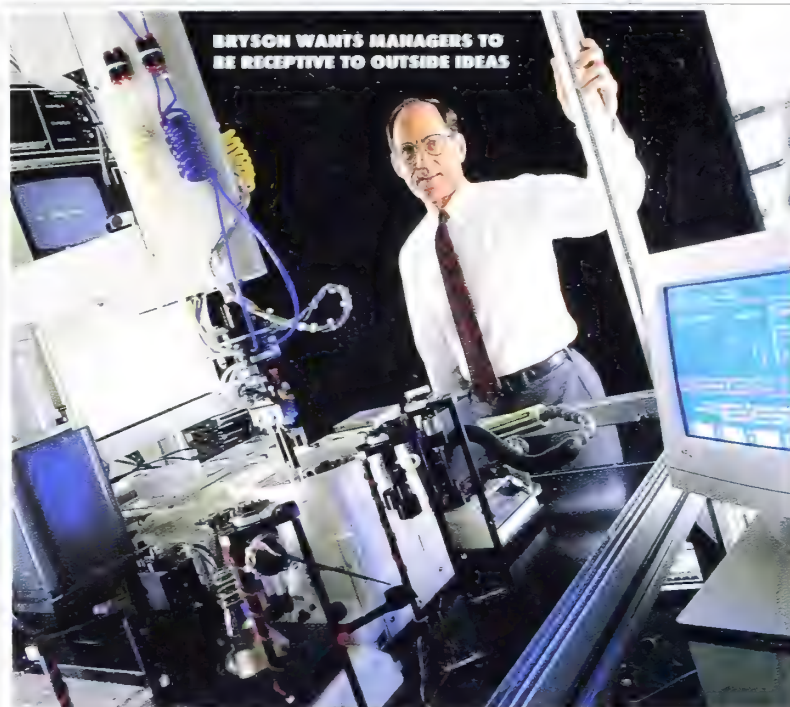
tions, such as poor monitoring and record-keeping. On top of that, Lilly's Advanced Cardiovascular Systems Inc. was forced to halt shipment of a key catheter for several weeks because it failed to file proper documents with regulators. These and other problems are attracting closer regulatory scrutiny, says Ronald M. Johnson of the FDA's compliance and surveillance office.

The mounting strain became apparent on Oct. 20, when Lilly posted a bruising third-quarter loss of \$269 million, after a profit of \$297 million a year ago. Much of the red ink is due to \$720 million in restructuring and accounting charges, including a \$245 million write-down after consolidating some manufacturing operations. Although most of the charges are nonrecurring, it was a humbling experience for the Indianapolis-based company, which had boasted a 31-year string of profit gains. While analysts say Lilly's profits will rebound next year, they expect that earnings for all of 1992 will be down 43%, to \$746.9 million.

IN FLUX. Ever since it was founded in 1876 by Colonel Eli Lilly, a pharmacist who served with the Union Army, Lilly has been one of the world's most successful drug companies. Its earliest coup was obtaining an exclusive license to produce and sell insulin in 1922. From then on, its earnings growth has been legendary and reached its apogee in the late 1980s. From 1987 to 1991, profits rose by an average 20% a year.

Unfortunately, Lilly's routine success bred a kind of rigid, bureaucratic management style. What worked in the past, Lilly managers believed, would always work. That kind of narrow vision ever prevailed in research and development.

Consider Hybritech Inc., a San Diego startup that was developing a test for the early diagnosis of cancer when Lilly acquired it in 1986 for \$300 million. Former



ELI LILLY'S LATEST ALLIANCES

Company	Project	Lilly's investment Millions
CENTOCOR	Developing a drug to combat massive bacterial infections	\$100.0
REPLIGEN	Hoping to produce drugs to treat trauma shock and respiratory distress	14.0
OCLASSEN PHARMACEUTICALS	Developing an oral drug to treat hepatitis B	7.5
SHAMAN PHARMACEUTICALS	Working on drugs to treat respiratory viruses and herpes	4.0
SIBIA	Developing drugs to treat nervous-system diseases such as Alzheimer's	4.0
BIOJECT	Developing a system to inject medication through the skin without a needle	4.0

DATA: COMPANY REPORTS, BW

employees say Lilly meddled too much and insisted on reviewing even minor decisions. Hybritech's original management team eventually quit, leaving the company in flux at a time when competition in the diagnostic field was intensifying. "Lilly took away the opportunity to work independently and make decisions quickly," explains David S. Kabakoff, a former Hybritech vice-president.

The bureaucracy also made Lilly slow to respond to events. That was amply demonstrated in 1989 when Scientologists, who oppose the use of psychiatric drugs, charged that use of Prozac led to violent and suicidal behavior. Lilly initially underestimated the threat posed from the allegations and didn't mount an effective defense until the following year. The controversy didn't die down until 1991, when the FDA gave Prozac a clean bill of health.

Bryson concedes that drastic steps are necessary if Lilly is to remain a top-tier drug company. He has already reshuffled the management of its medical-deVICES unit and is making progress in combating regulatory lapses. But a lot remains to be done. "I'm trying to communicate to this organization that success is not a birthright," says Bryson, a 44-year-old native of Gastonia, N.C. Lilly "is a company that needs to adapt to a changing environment while we still have a lot going for us."

ENERGIZER. Loosening up Lilly's starched Midwestern culture is a top priority for Bryson. Unlike his 65-year-old predecessor, Richard D. Wood, who was known for his highly centralized style—what some insiders called "command-and-control" management—Bryson encourages decision-making at the middle echelons. He has also made himself more accessible. A finance man, Wood dined in the company's penthouse dining room; Bryson, a pharmacist who rose through the sales ranks, often eats in the cafeteria with Lilly employees. "Vaughn is willing to come downstairs to find out what's going on," says David W. Elliot, the new 32-year-old sales and marketing director at Lilly's Cardiac Pacemakers Inc. in Japan. "He has energized the place."

Bryson undoubtedly hopes a lot of that energy results in a new generation of products. But he has also taken some steps to encourage product development. For starters, he hopes to cut development time for new drugs in half, to 6½ years. Bryson has also begun to draw talent from outside Lilly, something that was unthinkable a couple of years ago. He has hired high-profile researchers from the National Institutes of Health and the Centers for Disease Control. "All the brains in the world are not going to reside in Indianapolis," he says. Bryson is also expanding an ambitious

CENTOCOR AND LILLY: TEAMED UP IN A BIOTECH BUDDY SYSTEM

Centocor executives were never shy about their ambitions. For years, they told investors they were building an independent, fully integrated pharmaceutical house—"a major health care company," in the words of the corporate mission statement. They were sure that their main drug, Centoxin, which treats massive bacterial infection, would one day vault Centocor Inc. into the ranks of giants such as Eli Lilly & Co.

It didn't turn out that way. Instead of rivaling Lilly, the Malvern (Pa.) company now finds itself an integral part of Lilly's future plans. Desperate to survive after the Food & Drug Admin-

that either company will realize its goals. The FDA's mid-April action hurt Centocor so severely that wags took to calling it "Centocorpse." The FDA ruled that company studies failed to demonstrate Centoxin's effectiveness against so-called gram negative sepsis—an often fatal bacterial infection contracted in hospitals. Far more damaging were suggestions by the agency that company staffers could have improperly altered their findings after obtaining an early glimpse of the independent analyses of Centoxin's clinical trials. Centocor declines to comment on the FDA's intimations. Finally, matters worsened when researchers writing in the *New England Journal of Medicine* seconded the FDA view that Centocor hadn't proved the drug's effectiveness.

HEDGING BETS. Even if Centoxin is approved, the delay may have cost Centocor and Lilly the critical marketing advantage of being first. Rival medications, such as Antril from Synergen Inc., based in Boulder, Colo., are showing promise. Moreover, Centoxin's price—a stiff \$3,700 a dose—may disuade widespread use.

Despite the hellish spring, Centocor Chief Executive David P. Holveck is sure he can win an O.K. for the drug. The company has won approvals for it in 10 European countries, with more expected. And because the deal with Lilly frees it from worrying about marketing, Holveck says Centocor can pursue research on Centoxin full-time.

Lilly executives are also upbeat about their new partners and rate Centoxin's U.S. approval chances pretty high. "We think the science is very solid," insists David Thompson, head of business development for Lilly. Already, Lilly is taking over marketing for Centoxin in Europe, where sales could top \$20 million this year.

And even if Thompson is wrong, Lilly has managed to hedge its bets. Under its agreement with Centocor, Lilly may get selling rights to the company's next potentially big drug, blood-clot inhibitor CentoRx, at no cost if Centoxin flops. It will have to pay \$25 million for those rights if the FDA approves Centoxin next year.

Still, if Centocor can't get the FDA to change its mind, Lilly's investment will have done little but buy time for the troubled biotech company—a sorry purchase, when stacked up against its dreams for Centoxin.

By Joseph Weber in Philadelphia



HOLVECK: A MAJOR REVERSE FROM THE FDA

istration, citing poor test results, rejected its application to market Centoxin, Centocor sold 5% of its stock to Lilly last summer for \$50 million. For another \$50 million, the Indianapolis-based pharmaceutical giant also picked up distribution rights to Centoxin.

At first glance, the deal seems perfect. Centocor is using the cash it raised from Lilly to finish the research it believes will prove Centoxin's worthiness to regulators—and so ensure the company's survival. Last year, Centocor lost \$195.6 million on revenues of \$53.2 million, after a \$132 million loss in 1990. Revenues in 1990 totaled \$64.6 million. For its part, Lilly hopes Centoxin will help fill its new-product pipeline, especially when sales of its long-time staples, such as the antibiotic Ceclor, weaken.

Unfortunately, there's no guarantee



This

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lan to forge strategic alliances with young research companies that he hopes will pump new products into Lilly's pipeline. Since 1991, Lilly has paid nearly \$200 million to two-dozen small companies to acquire minority stakes and marketing rights for products in development (table, page 70). The biggest deal so far is with Centocor Inc., a Malvern (Pa.) biotech company. In exchange for 100 million, Lilly received 5% of Centocor's stock and distribution rights to its antibiotic, Centoxin (page 71).

Goblins of Routine. By pairing Eli Lilly researchers with scientists from these early-stage companies, Bryson hopes to encourage innovation—both at the startups and at Lilly. "We must all overcome the goblins of routine," he urged in a videotape that was translated into 10 languages and viewed by Lilly's 10,000 employees earlier this year. To counter the "not invented here" syndrome, he is putting several hundred senior managers through a week-long management course that is supposed to make them more receptive to outside ideas.

Although there's a high failure rate among such startups, Bryson is betting that at least a couple of his investments

will pan out. He is also confident that Lilly's own R&D efforts will produce some potential hits. That's one of the reasons he continues to expand Lilly's sales force overseas. In April, Lilly bought the pharmaceutical subsidiary of Beiersdorf, a German health-care company, for an undisclosed sum, and it is now scouting for acquisitions in Italy. "To capitalize on the \$350 million you've in-

Rivals are putting pressure on Prozac's share of the antidepressant market—down to 18.1% in September

vested in a new drug," Bryson says, "it's in your best interest to take advantage of as many markets as you can as fast as you can."

Bryson's optimism about future products had better be justified. Prozac's share of total antidepressant prescriptions dropped to 18.1% in September, from 19.5% only this past February, because of growing pressure from compet-

ing drugs, such as Pfizer Inc.'s Zoloft.

The more immediate concern is Ceclor, Lilly's \$1 billion-a-year antibiotic. At least four generic-drug companies have already filed applications with the FDA to begin selling knockoffs when Ceclor goes off-patent in December. Lilly still holds several processing patents that are crucial to manufacturing the complex compound. Still, Ceclor "won't last forever," admits Ronald A. Matricaria, who next year will head up North American operations for Lilly's drug division.

For the moment, Bryson believes he can defend Lilly's market share. Lorabid, a new antibiotic launched in September, should make up for some of Ceclor's lost sales. Still, the future is tricky. Competition is growing. Development costs are rising. And the drug industry is losing its pricing flexibility as part of the backlash against high health-care costs. The company needs agility, speed, and a good eye for fresh opportunities. Only if it acquires those skills can Bryson coach Lilly to hit the home runs it will need in the years ahead.

By Julia Flynn in Indianapolis, with John Carey in Washington, Joseph Weber in Philadelphia, and Joan O'C. Hamilton in San Francisco

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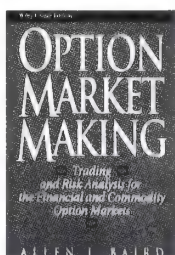
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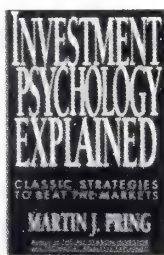
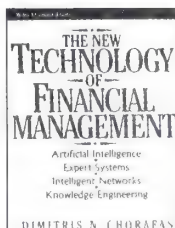


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POINT OF PURCHASE: SUPPORT FROM THE DIVISION'S 3,100 DEALERS IS CRUCIAL

CAN OLDS HITCH ITS WAGON TO SATURN'S STAR?

John Rock wants GM's sickest unit to copy its upstart cousin

John D. Rock, general manager of Oldsmobile, calls himself an angry cowboy. How come? "Somebody out there is trying to shoot my horse," he complained publicly on Oct. 22 as he tried to rope in speculation that General Motors Corp. planned to eliminate his division.

It isn't hard to see why some thought the 95-year-old Oldsmobile brand was bound for the glue factory, however. Even though Olds's Cutlass Supreme was once the country's best-selling car, overall Olds sales have skidded badly since the mid-'80s. In the 1992 model year, the division's sales were down 8.4%, to 436,000. Selling fewer than half the cars it sold in the mid-'80s, Olds is the sickest of GM's ailing divisions.

GM's new top brass has told Olds's 3,100 dealers that GM's fourth-largest division, with \$8 billion in sales, won't be scrapped. But reviving it will be tough. Rock, 56, who arrived at Olds in April after stints at Buick and GMC Truck, has mapped out a sweeping plan to reposition Oldsmobile as the next step up for buyers of Saturns, the popular small cars from GM's upstart Saturn Corp.

He also plans to "Saturnize" Olds itself—a bold experiment that's long overdue. Part of GM's rationale for its

\$5 billion Saturn investment in the 1980s was to create a successful prototype its other divisions could copy. But so far, Saturn's success has fostered more resentment from other GM nameplates than imitation. Rock's plan for Olds is the first attempt to adopt Saturn methods wholesale at another GM operation.

One of Rock's first steps has been to infuse some of Saturn's entrepreneurial spirit into Olds's traditional management style. He has ordered executive pilgrimages to Saturn's Tennessee plant. He has also encouraged more openness at Olds's Lansing (Mich.) headquarters by holding special "cowboy" days when employees can sound off to bosses with impunity.

Copying another Saturn innovation, Rock is forming a "governance board" of select dealers, advertising staff, blue-collar workers, and Olds managers who will help guide it through the tough times ahead. Initially, the board will help ax weak dealerships. It will even consider scrapping the Oldsmobile name.

Eventually, the board will pass judgment on new models, a critical step if Olds is to survive. Already, Rock plans to halve Olds's product line to about 15 spruced-up models. Among the likely cuts is the Cutlass Ciera. Olds's biggest seller in 1992, the Ciera is a victim of GM's decision to trim its midsize car offerings at the end of the '96 model year. "Nothing's sacred," Rock vows.

Rock admits, however, that Saturn's success will be hard to duplicate. Saturn was created from scratch with a state-of-the-art plant, hand-picked workers, an elite circle of 225 dealers—and a clean slate with consumers. By contrast, Olds has to live with its existing plants. And the division's recent efforts to shed its dowdy image with consumers have flopped. The "This is not your father's Oldsmobile" campaign, fashioned by Olds's longtime ad agency, Leo Burnett Co., reminded younger drivers that the average Oldsmobile buyer, at 57, is identified with the Geritol set. The typical Saturn buyer is a mere 38.

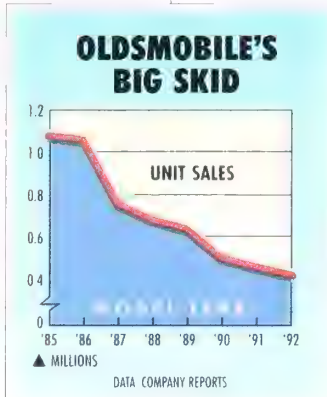
NEW DEAL. There are a few bright spots, however. Quality at Olds has been on an upswing. Determined to make consumers see its cars in a new light, Olds put its ad account up for review in October. And Rock, the son of a South Dakota Olds dealer, is actively seeking crucial dealer support for his reforms. So far, the dealers, who have been given the cold shoulder by Olds in the past, are willing to give Rock a chance. Says Steven L. Moskowitz, an Oldsmobile dealer in Merrillville, Ind.: "John is trying to get us involved, right from the plant to each salesman who works on the floor."

Even when the transformation is complete, Olds won't be out of the woods. Its model lineup is concentrated in mid-

size family sedans—exactly where its Japanese rivals are strong. Still, the compact Achieva, launched last December, has made a respectable showing, and both the Achieva and the Cutlass Supreme will be restyled in 1997. In the meantime, Olds is hoping that the Aurora, a luxury sedan coming in the spring of 1994, will steal customers from Lexus and Infiniti.

With that lineup, Rock believes Olds has a fighting chance in the near term. "Don't count us out," he declares. And longer term, after following Saturn's trail, this riled-up cowboy believes Olds can ride tall in the saddle again.

By Kathleen Keenan, with David Woodruff, in Detroit



Another case for USF&G: Miami, FL. August, 1992



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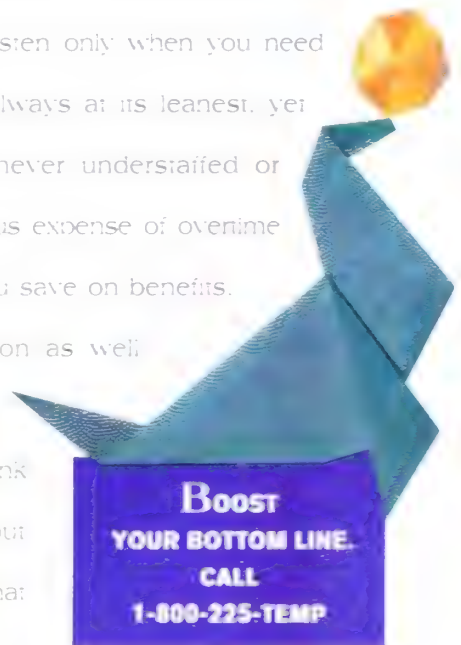
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HUMBLE PIE FOR T.J. RODGERS

Cypress' CEO changes his tune after price wars lead to red ink

It was a reversal of fortune that T.J. Rodgers was slow to comprehend. Cypress Semiconductor Corp., the San Jose (Calif.) company he founded, had been a model of entrepreneurial success. By making ultrafast chips for small niches, it managed 37% annual growth and 15% profit margins even through chip recessions in the late 1980s. Then came 1991's fourth quarter. When earnings fell a stunning 27%, Rodgers blamed production glitches and vowed to

boss, Advanced Micro Devices CEO W.J. "Jerry" Sanders III.

That experience has led to a conversion of sorts. The CEO who once castigated his Silicon Valley brethren for failing to outduel foreign manufacturers has begun copying their methods. He is moving assembly to Thailand and laying off 400 employees, 21% of his work force, two things he once vowed never to

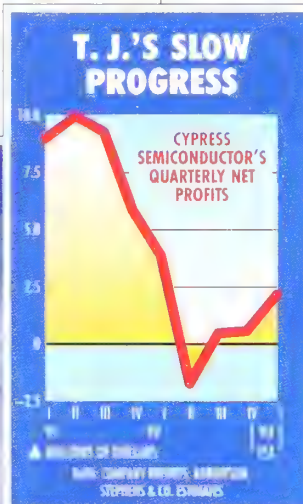
can company's efficient manufacturing and quick design turnarounds at his five subsidiaries. Pervasive computer monitoring kept him informed of every employee's and every product's progress, and he upbraided slipshod managers personally. That unusual style had sustained Cypress' winning streak even as Japanese behemoths such as Toshiba, Fujitsu, and Hitachi entered his market for fast chips called static random-access memory, or SRAMs, which account for about 30% of company revenues. But the *enfant terrible* underestimated his competitors at home. Motorola Inc. and Micon Technology Inc. have both jumped into the SRAM market and early this year helped start a price war, analysts say. Result: One key Cypress

SRAM, used primarily in high-end desktop computers, now sells for \$3.70, vs. \$8.10 then.

FLOODING? Disaster also struck another product called programmable logic devices (PLDs), a hot seller with a wide range of uses. Both Cypress and Altera Corp., from whom Rodgers licensed the PLD design in exchange for manufacturing rights, accuse each other of flooding the market with PLDs in an effort to boost revenues. The resulting price war slashed profits at both companies,

and now Altera CEO Rodney Smith has decided not to license his latest generation of PLDs to Cypress, turning instead to Japan's Sharp Corp. "I doubt if we would give [Cypress] any more products," Smith says, though he will keep making faster versions of his older chips at one Cypress subsidiary in which Altera still

has a 16% investment. The price wars showed that Cypress had to be more efficient. That prompted Rodgers to seek help from experienced executives such as Fred B. Bialek, formerly of National Semiconductor Corp. and now a Cypress director. Bialek persuaded Rodgers to shift assembly offshore, a move that will save \$17 million a year when completed in March. Bialek also insists that Rodgers is "working real hard at not spending micromanagement time" on daily operations. "In the area of technology, the guy's fantastic. But I want him out of the things that he doesn't have that kind of insight into." Indeed, as a manager Rodgers made



RODGERS IS MOVING ASSEMBLY ABROAD—A COURSE HE ONCE VOWED NEVER TO TAKE

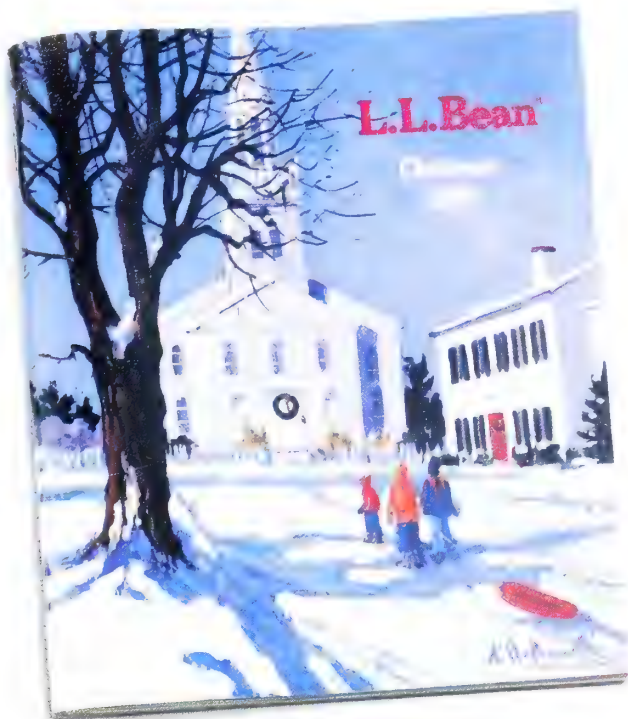
compensate by aggressively pushing his broad product portfolio. "I felt that if we could crank the revenue up, we could float the rock again," he recalls. He couldn't. In short order, Cypress found itself in a vicious price war and failed to get a key product to market. In this year's second quarter, it recorded its first-ever loss as a public company—\$1.7 million deficit, vs. income of \$10 million a year earlier—as revenues dropped by 12%, to \$65.8 million. Rodgers' critics had been right, it seemed: His company was ill-equipped to compete when its niches grew large enough to attract big rivals. "He was lugged by reality," says his former

do. And he promises to finally give up some control of day-to-day operations to concentrate on new products and markets. "It's a defeat," Rodgers concedes. "I've had to change my mind-set." Not to mention his expectations. Analysts see Cypress earning just \$3.3 million this year, vs. last year's \$34.2 million, on a 6% decline in revenues, to \$270.9 million. Next year, they project a rebound—14% revenue growth, to \$310 million, with profits rising to \$19.5 million. After bottoming out at 7% in July, the company's stock has jumped four points, though it's still 40% below a year ago.

Back then, Cypress was riding high. Rodgers was boasting of his all-Ameri-

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classic mistakes. His engineers were spread too thin, developing too many new products while trying to update the 2,500 the company already had. That made everything late. Cypress has yet to produce the latest generation of SRAM—a 1-megabit chip, which Motorola and Micron have been selling for months. His microprocessor subsidiary, Ross Technology Inc., is a year late delivering a new-generation chip for Sun Microsystems Inc. So for now, Texas Instruments Inc. has won Sun's business. In response, Rodgers has hired consultant Thomas Group Inc., run by former Intel Corp. manager Alex W. Young, to help cut chip design time from 102 weeks to 65 weeks and order-to-revenue time from 180 days to 99 days—all by March. As a byproduct, Cypress' lineup will be pared by 25% and several new chips in development will be killed.

UNKNOWN FACTOR. These moves ought to restore Cypress to health. Getting back on the fast track will take longer—and require finding more high-revenue niches than Rodgers has had until now. He is looking into flash memory chips, which are faster replacements for other erasable memory chips in computers, plus chips for multimedia computing that add sound and video processing. To offset the loss of Altera's new products, Rodgers has made an investment of undisclosed size in Quick Logic Corp., a startup making the latest generation of programmable devices, known as field-programmable gate arrays.

The real unknown is the long-delayed SPARC microprocessor being developed for Sun by Ross Technology, now due by mid-1993. Sun could buy \$30 million this year and \$80 million worth next year, says Daniel L. Klesken, an analyst at Robertson Stephens & Co. Still, Rodgers is worried that other major computer makers don't use the Sun-designed chips—which retards growth at Cypress. Right now Sun is selling fewer than 300,000 SPARC engineering workstations a year, and it may supply chips for most of those. "The idea of several suppliers is good," says David Ditzel, director of advanced systems at Sun Microsystems Laboratories. "But as the chips get more complex, that gets harder to do."

So, Rodgers is considering the once unthinkable—grabbing the coattails of Intel, which he had vowed to thrash with his SPARC microprocessor. He now says Ross Technology may adapt some chips that go with SPARC, such as those that act as its short-term memory, to work with Intel microprocessors. It isn't quite the lofty goal he once aimed for. But it may beat flying too high, only to take a hard fall.

By Richard Brandt in San Jose, Calif.

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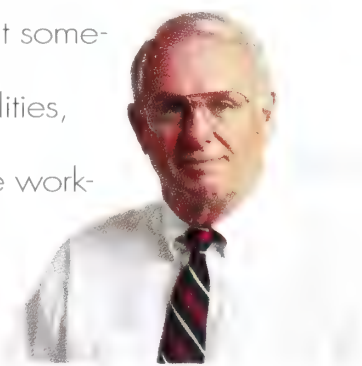
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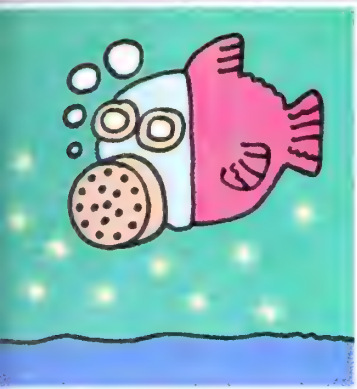


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GLOWING, GLOWING, GONE: A WACKY POLLUTION TEST THAT WORKS



To measure pollution in tainted waters, scientists use the aquatic equivalent of a miner's canary. In standard tests, they measure pollution by how fast small crustaceans or fish die, or by changes in their reproductive rate. This approach beats measuring each of hundreds of chemicals, but it can still cost more than \$1,000 a test and take a week.

Scientists at the Georgia Institute of Technology have devised a new test that sharply cuts both time and cost. The secret is using a tiny creature called a rotifer. As pollution rises, the pinhead-size animals eat more slowly. So researchers concocted a diet of microscopic glowing rubber balls. By feeding the balls to the rotifers, then measuring how much the creatures glow, it's possible to ascertain pollution levels in one hour, at a cost of about \$20. Eventually, the rotifers could be genetically engineered with a gene for bioluminescence, says Georgia Tech's Terry Snell. That way, they would glow on their own in clean water and dim as pollution increases.

DRIED VACCINE—JUST ADD WATER AND INJECT

In the world of nature, resurrection is more than a spiritual concept. So-called resurrection desert plants can dry up and remain seemingly lifeless for years only to revive after rains. Marine shrimp embryos, better known as "sea monkeys," have a similar life cycle. The common link between these organisms is that their cells contain large amounts of a sugar called trehalose. In the absence of water, trehalose seems to preserve proteins—keeping their structure intact.

Scientists at Quadrant Research, a biotech startup in Cambridge, England, are using the sugar to produce dried vaccines and red blood cells that can be stored for years and then rehydrated before use. Polio vaccine is the first target. To remain viable, it now must be kept at very low temperatures—a problem for Third World countries. The World Health Organization is working with Quadrant on a dried version, and human trials could begin in two years, says Dr. Bruce J. Roser, scientific director of the company.

Roser also envisions slipping the gene that's key in producing trehalose into crops. That could keep them in "suspended animation" during droughts, he says.

COMPUTERIZED AIR CRASHES MAY MAKE THE SKIES SAFER

Virtual reality could be a boon for investigating airplane crashes. The Institute for Aerospace Research in Ottawa, an arm of Canada's National Research Council, is developing software that can transform the data from a plane's black-box flight recorder into a realistic sight-and-sound simulation of the aircraft's final moments.

Called the Aircraft Data Analysis & Presentation System (ADAAPS), the program will allow crash investigators to sit in the cockpit and watch a reconstructed instrument panel while listening to the crew's voices. The mishap can also be viewed from the ground or from overhead. And three-dimensional computer images of the terrain can be merged with the simulation, along with data from air-traffic and weather radars plus eyewitness accounts. ADAAPS cross-checks all the information for integrity and consistency, relieving investigators of the time-consuming chore of hunting for anomalies.

The final simulation can also be used to drive a flight simulator, so safety experts can try to figure out ways to avoid such accidents. Elias Politis, head of the ADAAPS project, expects the system to be finished early next year.

HOMING IN ON THE GENETIC FLAW THAT CAUSES SKIN CANCER

Scientists have known for more than a decade that about 10% of the cases of the deadliest skin cancer, malignant melanoma, seem to be inherited. That has touched off a search for the gene causing the scourge, which strikes about 32,000 Americans—and kills about 7,800—annually. Over the past several years, they have homed in on a region of DNA, located on chromosome 9, that seems to play a key role in the cancer. In some patients with tumors, for example, chunks of DNA are missing in this section of the chromosome.

Now, a team of 16 researchers from 8 different centers may have pinpointed the melanoma gene. In the Nov. 13 issue of *Science*, they reported that 82 cases of melanoma in 11 different extended families involve genetic flaws in one key spot on chromosome 9. The next step is figuring out what the exact genetic defect is. Current thinking is that the gene probably codes for a protein that suppresses tumors. So when the gene is defective, the melanoma is allowed to spread. After they identify the gene—which could also be the culprit in noninherited cases of the disease—scientists may be able to develop drugs that counteract the flaw.

A TASTY MILK SUBSTITUTE? NOW THERE'S A WHEY

Curds and whey were a staple for Little Miss Muffet. But for the dairy industry, whey, a watery byproduct of cheesemaking, is waste that's increasingly expensive to get rid of. One solution: Balance Inc., a startup in Kent, Wash., has developed a milk substitute whose main ingredient is whey.

Roy Brog, a Utah dairy chemist, made such a product in the 1970s. But because it was in powder form, customers shunned it. Balance founder Sam Huffman rejiggered Brog's formula to make a tasty liquid product, called Milk-Lite, which it began marketing this month. Milk-Lite looks and tastes like milk but is low in lactose and has just 1% fat and lots of vitamins. It has 90 calories per serving, about the same as skim milk, and sells for \$1.29 or less per half-gallon. Huffman says 25% of Americans are so-called lactose-intolerant, but he's targeting all consumers.





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Commentary/by Michele Galen

WHEN THE SMOKE CLEARS, CIGARETTE MAKERS MAY GET BURNED

You could almost hear the champagne corks popping at tobacco companies across the country. On Nov. 5, lawyers for the estate of Rose Cipollone stunned the industry by announcing that they had dropped the most prominent damage case filed by a smoker. The move capped a bloody, 10-year legal assault on cigarette makers that went all the way to the U.S. Supreme Court.

Tobacco companies hailed the move as a total vindication of their position. "Our view has always been that the cases do not belong in the courtroom," says Charles R. Wall, Philip Morris Inc.'s associate general counsel. "People are aware of the claimed risks of cigarette smoking, so why should they get money?"

LOST LEADER. At first glance, the industry does seem the clear victor in the legal war over cigarette smoking. With the exception of a \$400,000 award in *Cipollone*, no jury has assessed damages against a tobacco company. And since *Cipollone* was filed in 1983, tobacco stocks have soared. Philip Morris, which is fighting some 24 liability suits, has seen its shares zoom from about \$7 apiece to \$78. Tobacco stocks surged higher on the news that Cipollone's trailblazing lawyer, Marc Z. Edell, had quit the case—and perhaps tobacco litigation. After spending \$1 million to finance *Cipollone*, his firm had had enough.

But there's another view of *Cipollone*. Along with other cases, it has buoyed the antismoking movement and may ultimately prove to be the ammunition that badly hurts cigarette makers. As a result of *Cipollone*, "we have two things that we didn't have before," says Professor Donald W. Garner of Southern Illinois University School of Law in Carbondale. "We have a very clear message from the Supreme Court on how to bring these lawsuits, and second, we have discovered a vast public-relations fraud



ANTISMOKING ACTIVIST DAYNARD: BUOYED BY CIPOLLONE

and gimmick by the tobacco industry that has lasted 40 years."

From the start, *Cipollone* was more than just another liability suit. Rather, it gave smoking opponents a new weapon when they really needed it. By the 1980s, efforts to regulate smoking had stalled—despite growing evidence that smoking-related illnesses caused some 300,000 deaths a year (the body count has since swollen to 434,000). Encouraged by successful cases involving asbestos and the Dalkon shield contraceptive, lawyers took on the more formidable tobacco industry.

Cipollone quickly put the industry on the defensive in a very visible way, and that pressure has not let up. The case generated "millions of dollars of publicity based on the fact that ciga-

rette companies killed someone," says Michael Pertschuk of the Advocacy Institute. "That's a very strong message."

But *Cipollone*'s greatest power has yet to be felt. In June, the Supreme Court deprived smoking opponents of a key legal weapon: that cigarette makers had an affirmative duty to warn of tobacco's dangers. Instead, the justices endorsed a whole new line of attack, permitting damage suits alleging that the industry hid smoking's risks. And they left room for states to regulate in areas not specifically preempted by federal law.

Now, attorneys are devising theories likely to be more palatable to juries than injury suits.

Garner, for one, is urging state attorneys general to bring consumer-fraud cases. And instead of seeking remedies that reward smokers for smoking, such as damages, he suggests forcing tobacco companies to turn over some profits to finance a public-education fund.

The Supreme Court also opened possibilities for state regulation. For example, regulators could force tobacco companies to include package inserts warning that cigarettes are "addictive," says Richard A. Daynard of the Tobacco Products Liability Project.

DECADES OF LIES. Ultimately, *Cipollone*'s most significant legacy may be the file cabinets of documents produced during the litigation. The documents, along with records uncovered in another case brought by Edell's firm, show how industry representatives deceived the public about the link between smoking and disease. They also indicate that industry leaders lied to Congress for decades in a successful effort to fend off regulation.

Such evidence will bolster fraud suits and give lobbyists new ammunition. But the documents go beyond the courts and Congress: In the tobacco industry's own words, they undermine the apparent credibility of an industry on a vital matter of public health.

PRESSURE POINTS



HAINES VS. LIGGETT GROUP

Susan Haines alleges that the tobacco industry hid the dangers of smoking. Liggett and others deny the charge

LESNICK VS. LORILLARD

Beverly Lesnick claims her husband died from Kent filters containing asbestos. Lorillard is fighting

GILBOY VS. AMERICAN TOBACCO

Robert Gilboy argues that cigarettes are an unreasonably dangerous product and seeks damages for cancer. American Tobacco disputes the charges

DECONSTRUCTING THE

As the monolithic mainframe gives way, the industry breaks into leaner, faster, smaller parts

It sure looks like an industry on the skids. The signs are everywhere and grow more painful every day: World-wide leader IBM Corp. is shedding 40,000 workers this year, for a total of 100,000 since 1985. No. 2 Digital Equipment Corp. ousts its founder, after taking \$3.1 billion in charges over two years to cut 18,000 jobs and vacate 165 facilities. Wang Laboratories Inc. files for Chapter 11 protection. France's Groupe Bull lays off 8,000 workers and closes 8 of 13 factories; Italy's Olivetti downsizes by 20%; Siemens Nixdorf plans to lose 6,000 workers. And the list goes on.

"Think," an industry byword in IBM's heyday, is giving way to "Shrink." It's not just computers that are getting smaller, it's most of the companies that make them, too. They're deconstructing—shutting factories, cutting jobs, spinning off subsidiaries, farming out work, and slashing managements.

DOLDRUMS. Even the younger generation is feeling the pinch. Relative kids such as Apple, Sun Microsystems, and Compaq are attacking costs, too. Apple Computer Inc. and Compaq Computer Corp. have laid off thousands to cut overhead and stay a step ahead of the hundreds of wannabes nipping at their market shares. Only in Japan, it seems, have companies avoided downsizing. But they may be next. Sales are slowing, and Fujitsu Ltd. reported a \$160 million loss for the first half of fiscal 1992.

What's going on? Like all manufacturers, computer makers are under pressure to slash costs. But they also face a unique challenge. In their business, every 18 months, advances in microprocessor technology double the amount of computing power a dollar will buy. These powerful chips and standardized software have already turned PCs into a low-margin commodity, and PCs have be-



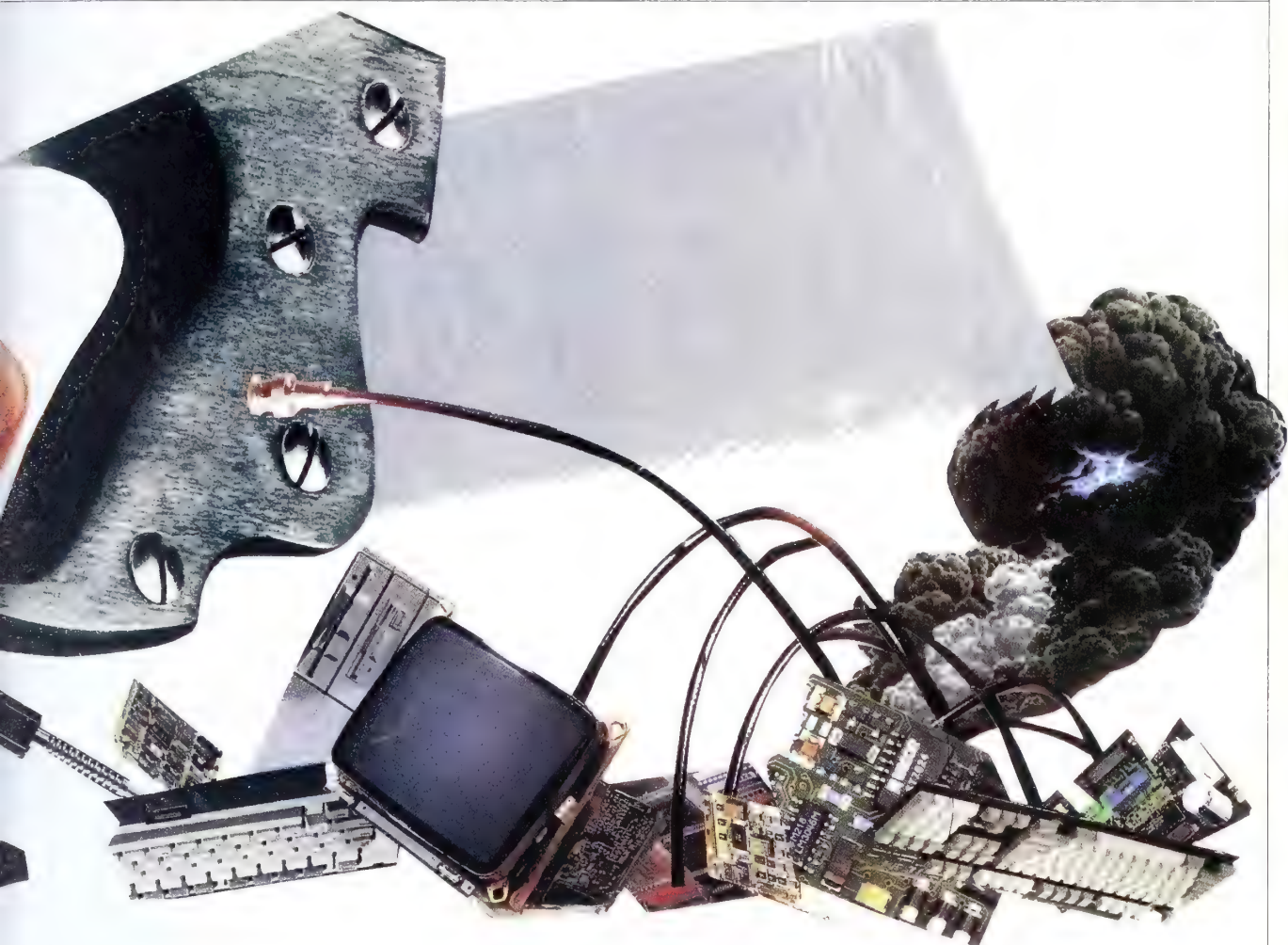
come the industry's biggest part (chart, page 93). Now that computer makers are building large-scale systems—including machines that will surpass IBM's biggest mainframes—from the same cheap chips, the harsh economics of the PC are sweeping computerdom. "The computer-systems business is rapidly evolving to become similar in structure to the PC business," says John Levinson, computer analyst at Goldman, Sachs & Co.

Already, the industry's net income has plunged from 6.5% of revenues in 1986 to -0.12% last year, excluding special charges, according to Standard & Poor's Compustat Services Inc. That's billions in earnings up in smoke—a figure reflected in the dismal performance of

computer stocks (chart, page 93). And the forecast is for more of the same, as powerful microcomputers gobble up more of the market. "We never plan to see margins come up again," says Peter Bonfield, chairman of Britain's ICL PLC.

NICHE-PICKING. So the business is a disaster, right? Not at all. Although falling prices have slowed revenue growth, from nearly 20% annually five years ago to the low single digits, demand for computer gear remains strong. Lower prices are inviting more customers. And there's plenty of new technology on the drawing boards—pen-based PCs, handheld "digital assistants," and massively parallel supercomputers—to create demand well into the new century.

COMPUTER INDUSTRY



But before then, the old industry has to deconstruct. With gross margins of 60% and falling, the vertically integrated companies that thrived on margins as high as 70% must do some painful soul-searching. They now have to choose at which points along the "value chain" they can most profitably apply their skills and resources. They may write software, build parts, or make complete systems. They may sell computers built by others. They may team up with partners. Or they may just help customers choose and install computers to solve specific problems. But even the mightiest, it seems, can no longer do it all.

The pattern for the industry's future structure has already been set—again,

by the microprocessor revolution. In the past decade, the industry has splintered into an array of specialty companies. Each focuses on a different part of the value chain: chips, disks, distribution, data-base software, customer service, and so on. And, as a whole, they are proving more efficient than old-line, integrated makers. Again, there's an analogy to what's happening in hardware itself: Computing power has fragmented, breaking out of the monolithic mainframe and spreading to flexible networks of powerful, desktop machines.

Big Blue and other giants grew up as vertically integrated organizations, à la General Motors, because that's how companies worked then—and because

there was little choice. They had to build their own chips, circuit boards, disk drives, terminals, printers, tape drives, and even the boxes the stuff went into. They wrote software, too, and fielded teams of salespeople, consultants, and technicians. Tens of thousands of employees, dozens of plants, and huge investments in research and development were involved.

But the PC changed all that. In 1981, when IBM chose an Intel Corp. microchip and Microsoft Corp. software for the IBM PC, it inadvertently sowed the seeds of its own deconstruction. Because anybody could buy the same parts, everybody got into the business. From Taipei to Tampa, from Delhi to Dublin, an in-

Special Report

infrastructure of suppliers sprang up to feed the right bits and pieces to thousands of assemblers.

With the PC market saturated with players, gross margins hurtled below 30%. As long as the big companies had a healthy business in "big iron"—minis and mainframes—this didn't hurt bottom lines much. But those core businesses have slowed. And now, sooner than DEC or IBM expected, big machines are threatened with extinction by low-cost, micro-based alternatives. "It has unfolded beyond our wildest imagination," says Gilbert P. Williamson, president of NCR Corp., acquired by American Telephone & Telegraph Co. in 1991. NCR's big thrust these days is building machines using multiple microchips that can do transaction-processing work for a retailer—but for a fraction of what it would cost with a mainframe.

FREE MARKET. So the falling tide is lowering all boats. McKinsey estimates the companies that in 1986 built and sold finished computer systems were capturing about 80% of the total profits being generated by computer sales. The reason: Older, high-margin systems from the big computer makers still dominated. These computers all had proprietary software that kept the customers locked in—and paying high prices.

By 1991, however, systems makers were getting just 20%. Why? Because the PC had cut out the fat—and not just by lowering costs. The PC and other "open" systems such as minis and workstations using Unix software made it possible for customers to choose from a

wide range of machines that all ran the same programs. They turned the industry into a free market. And the market soon reallocated profits. The biggest chunk, 49%, simply stayed in the pockets of customers in the form of lower prices—an economic surplus that "customers are unlikely to give back," notes Michael Nevens, a McKinsey principal.

That's not all. Computer makers also gave up profits to suppliers of components, software, and services, whose share of the pie rose from 20% in 1986 to 31% in 1991, according to McKinsey. In effect, the market said that chipmakers and software writers added more value than the folks cobbling those parts into systems and should be rewarded accord-

**'THINK' WAS THE OLD
BYWORD. NOW, IT
COULD BE 'SHRINK'**

ingly. That's why, as computer makers scramble, companies such as Intel and Microsoft, suppliers of the main chips and software, respectively, for the IBM PC market, are lapping up the gravy.

This explains the frenzy of deconstruction within the old vertical empires. Without fat profit margins on complete systems to mask inefficiencies, big companies can no longer afford in-house divisions—unless they're really competi-

tive. And in many cases, the best way to improve performance of a division of a factory—indeed, just to measure it—is to expose it more fully to market forces.

Clearly, that's the motive behind IBM Chairman John F. Akers' massive deconstruction project announced last December. He broke the sprawling company into 13 semiautonomous units. This past September, he created yet another, just for making and selling PCs. Each of those units is likely to subdivide until there's "a whole host of little companies under the IBM umbrella," says President Jack D. Kuehler. The free-standing units will keep their own books, and before long, it will be apparent where IBM can be truly competitive—and where it might cut its losses. "There will be some fallout and dislocations," says Kuehler. "Some won't make it." But if all these Baby Blues are operating at peak performance, the sum of the parts will be greater than today's whole—to share holders and customers.

'YOU'RE THE BEST.' The risk, of course, is that computer makers whose divisions can't cut it will quickly hollow out, shutting more plants and laying off more workers. That could boost short-term profits. But they would soon lose manufacturing and design knowhow, making them less able to bring innovations to market. And that would be the beginning of the end for a computer maker. "You have to have something where you're the best," says Charles E. Exley Jr., retired chairman and CEO of NCR.

The companies that dig out "best of breed" capabilities in their organizations

SUN IS SHINING—WITH A LOT OF HELP FROM ITS FRIENDS

For years, Sun Microsystems Inc. had big problems shipping its workstations on time. Customers could wait weeks for orders. Things got so bad finally that Sun just gave up. It shut down its 18 distribution centers around the world and turned the work over to Federal Express Corp. and others. "A few people thought we were insane," admits Robert J. Graham, vice-president for worldwide operations. But Sun subsequently set shipment records.

Even as the company, based in Mountain View, Calif., has blossomed into a \$3.6 billion operation, its management has heeded a simple corporate commandment: Thou shalt not do thyself what others can do better.

By hiring others to do everything from circuit-board assembly to customer sup-

port, Sun can focus on the things it does best: designing microprocessors, writing software, and marketing workstations. And to help keep those core functions efficient, Sun has split them among several independent subsidiaries, each chartered to make a profit. "That's the only way to run the computer business," says Chief Executive Scott G. McNealy. Indeed, it seems rivals such as IBM and Digital Equipment Corp. are beginning to agree.

Perhaps the best symbol of Sun's approach is how it handles its crown jewel, the Sparc microprocessor. When Sun created Sparc in 1987, it couldn't afford a

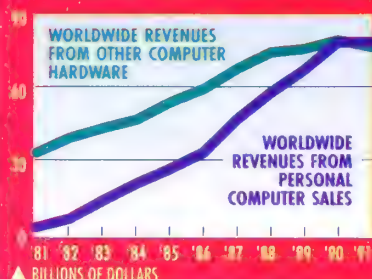


and free them to compete can hope to rebuild profits. Of course, most of the industry's best rigs are already taken: Even if you're great at operating software, Microsoft has that about sewn up. Ditto Intel in microprocessors; Conner, Quantum, and Seagate in disk drives; Andersen Consulting and Electronic Data Systems in systems integration; and so on.

The deconstructionists can take heart, though, from some examples of surprising innovation by their compatriots. Consider Hewlett-Packard Co.'s printer division, in Boise, Idaho: A decade ago, the minicomputer maker saw a chance to carve out a new niche in laser printers. It freed the division to pursue the new market—regardless of whether the printers would help sales of other HP machines. And now, HP has 43% of the \$5.4 billion U.S. market.

GET A FOCUS. There are already some promising possibilities among IBM's deconstructed units. Adstar, which used to design disk and tape drives primarily for use in IBM computers, is now mounting a massive effort to sell its drives on the open market, even for use in computers that will compete with IBM's. Another

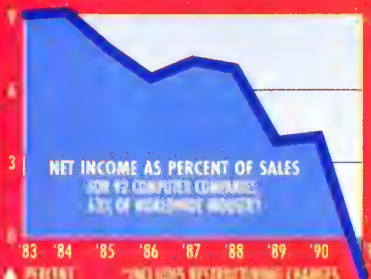
AS PERSONAL COMPUTERS TAKE OVER...



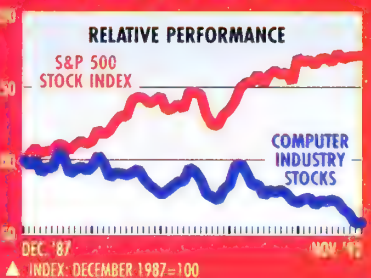
...FORCING COMPANIES TO SHRINK...



...RETURNS FOR COMPUTER MAKERS ARE DROPPING...



...AND PUNISHING THEIR INVESTORS



SOURCE: INTERNATIONAL DATA CORP., MCKINSEY & CO., AMERICAN ELECTRONICS ASSN., BRIDGE INFORMATION SYSTEMS INC.

unit is beginning to sell memory chips and other components outside, so Big Blue will have a chance to prove what it has frequently asserted—that it has world-class capabilities in chipmaking. In fact, IBM may come to resemble its Japanese rivals. Those electronics giants have always built components for the open market as well as for internal use.

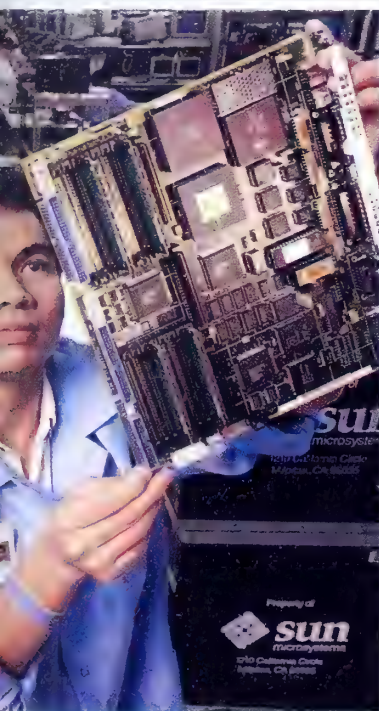
Success in chips and other components may be essential if big players want to avoid even more downsizing—to the hollow extreme of deconstruction epitomized by Dell Computer Corp.

As Chairman Michael S. Dell acknowledges, his fast-growing company's value added—its "core competency," as the management gurus would have it—is not computer technology at all, but distribution and marketing.

Dell is set up to excel in two areas: handling orders and queries from 30,000 customers a day and providing an endless supply of new models and options. Dell does no real manufacturing—only final assembly and testing. And in many cases, it doesn't even design the machines it sells: Dell engineers, using input from a vast customer base, create specifications for new computers and hire subcontractors to build them.

The message is focus, as Sun Microsystems Inc.'s huge success attests. The leader of the technologically demanding workstation business builds no components itself; it relies on outside subcontractors to build the guts of its systems (box). That leaves it money to spend where it can really add value: the Solaris operating software and Sparc, its microprocessor design.

Of course, IBM and Digital can't just turn into Dell or Sun overnight—nor



chip factory, so it licensed Texas Instruments, Fujitsu, Cypress Semiconductor, and others to make them in competition with each other. Today, Sun could afford to make its own chips, but it still doesn't. Why? Because the \$500 million that would require buys lots of engineering and marketing. Likewise, Sun avoids spending millions building and staffing factories by contracting work out to manufacturers such as Soletron Corp. While doubling shipments since 1990, Sun has cut its manufacturing work force by 10%, to just 2,000 people. And it has Eastman Kodak Co., Bell Atlantic Business Systems Services Inc., and others do the repairs on its machines in the field.

DIFFERENT LEAGUE. The results are dazzling. Sun's 12,800 employees generate \$280,000 each in annual sales, topping all but Silicon Graphics Inc. in the workstation market and putting Sun in a different league from, say, IBM, which gets \$188,000 per employee. Marvels Goldman, Sachs & Co. analyst John C. Levin-

son: "They blow everybody away on almost every measure."

Sun's don't-do-it-yourself approach has drawbacks. The SuperSparc microprocessor it developed with Texas Instruments Inc. was a year late, depressing profits. But later, it convened a task force of engineers, purchasing people, and others from Sun and TI to speed things up and get the new MicroSparc chip ready months ahead of schedule.

Still, it's unclear how far Sun can take its lean-and-mean model, especially as it moves into more complex computers. Recently, for example, Sun brought some circuit-board assembly in-house because outside contractors couldn't do it the way Sun needed. Sure, it cost more to do it in-house. But, McNealy says, it had to be done to get a new model out faster. Even in a deconstructed computer business, sometimes another rule applies: If you want something done right, do it yourself.

By Robert D. Hof in Mountain View, Calif.

From here on in, every luxury car has to rejoin the club.

The BMW 525i: \$35,600. The Mercedes 300E: \$42,950. The Lexus LS400: \$44,300. The Acura Legend: \$42,000. The Jaguar XJ6: \$42,000. The Cadillac Fleetwood: \$38,000. The Lincoln Town Car: \$32,000. The Chrysler Concorde: \$28,000.* Those are the kinds of numbers people believe they have to pay for a high-quality, high-performance luxury sedan. (And of course, the companies that make these cars, not being dumb, expect



courage this belief by raising those prices every year.) However, the time has officially come to take a long, hard look at the relationship between a car's price and its value. What's made that necessary is a startling development called the Chrysler Concorde. The Chrysler Concorde is a new luxury sedan with



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ore horsepower than a BMW 525i, more torque than a Nissan 300 ZX. And thanks to a revolutionary
w automotive architecture called "cab forward," more interior room than any Acura, Infiniti or Lexus.
has a list of standard features that reads like a wish list (including dual air bags). And when it comes to



how it drives, *Motor Trend* describes it this way: "lithe and agile, the balanced handling of a sports sedan, a ball to drive." Which brings us to the bottom line. The Chrysler Concorde, fully equipped, costs \$23,432.* No, that's not a hallucination. It just means that one carmaker in the world is asking a basic question. Why should driving a high-

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CLOSED SYSTEM IN THE '60s, IBM AND OTHER GIANTS DID IT ALL—CHIPS, DRIVES, PRINTERS, AND SOFTWARE

should they. Despite the battering they have sustained, the big players have enormous skill and unmatched assets, not least their tight relations with blue-chip customers and decades of experience creating comprehensive information systems for specific industries.

Solving complex information-handling problems for corporations is an obvious way of adding value—and replenishing profits—for old-line makers. IBM, for instance, is pursuing a variety of professional services, including writing custom software, outsourcing, and most recently, management consulting.

Before they can reap profits in new businesses, however, computer makers need to trim more costs in the old ones. That would have been a lot easier if they had started sooner. But in many cases, management assumed the slowdown in hardware profits was caused by the recession, not by fundamental changes in the industry. "A lot of people in our industry, including myself early on, didn't see that clearly," says James A. Unruh, CEO of Unisys Corp.

FINNISH LINE. One company that caught on early was Britain's ICL. Having survived a brush with extinction in 1981, ICL pared product lines and limited its marketing to a few key types of customers. More important, management punctured old assumptions. For example, when it bought a Finnish PC maker, Nokia Data Systems, instead of remaking the company in the ICL image, Bonfield encour-

aged his managers to pick up some fresh pointers from the younger organization (page 98). "If you've got the same structure you've got now in two years," he says, "you'll be out of business."

Digital Equipment, on the other hand, has only just grasped the need for a massive overhaul. Under former CEO and founder Kenneth H. Olsen, the company split into 150 business units—none with bottom-line accountability. The new CEO, Robert B. Palmer, has moved to consolidate those, to just 10 units, each of which will have profit-and-loss responsibility. "Clearly, we have some business units that can be more independent," Palmer says. One early candidate: the \$775 million disk-drive business. But he has no plans to spin out subsidiaries as IBM and some other big players have done, he says.

Once regarded as a basket case, Unisys now looks like a winner in the deconstruction game. Pressed by the enormous debt that former Chairman W. Michael Blumenthal took on in the 1986 merger of Sperry and Burroughs that created the company, Unisys had to come to grips with reality early. Unruh says he saw that "the economic model had changed and the cost structures of the past were obsolete."

The resulting makeover has put Unisys well ahead of IBM and others in many respects. Unisys began selling computers that were designed and produced by other companies. It has pared

its work force by 54% since 1986, in part through divestitures. It stopped making some PCs, began phasing out two entire lines of mainframes, shut several factories, and narrowed its marketing focus almost entirely to four industries: government, financial services, telecommunications, and airlines. The idea, says Unruh, is to understand those industries extremely well and help customers to install complex information systems which may not be 100% Unisys-built.

NO SACRED COWS. Unruh has had to company back in the black for four quarters, after three years of losses, and has pared debt to a more manageable 59% of capital—down from 65.7% at the peak. But it took measures that were painful in human terms (page 100). And, Unruh says, there can be no end to honing operations. "Our phrase is 'a little restructuring every day.'"

Every day and every way. As deconstruction ramps up at IBM, it's clear there can be no artificial boundaries—no sacred cows. That means the mainframe division no longer can squelch projects just because they might compete with its machines. Indeed, with the future of traditional mainframe technology dimming, IBM has several projects under way to create chip-based alternatives. Adstar, for instance, is teaming up with a small Silicon Valley company to produce a "file server" that could replace a mainframe as the hub in data networks. "We want to jump in and use the new tech-

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nologies," says Kuehler. "I'm not trying to protect our old ways."

One new way IBM is catching on is partnering. A major fact of life in the deconstructed computer industry is that more products are of ambiguous parentage—a blend of hardware and software from many sources. Indeed, even as it fragments, the industry is developing a thick web of strategic alliances, joint ventures, technology-licensing deals, and consortiums aimed at divvying up development costs, getting products to mar-

ket quicker, and pooling technologies and skills. So IBM is working with Apple and Motorola Co. on a new generation of chips and software. Meanwhile, Apple works with Japan's Sharp Electronics Corp. on handheld computers, and IBM teams up with Toshiba Corp. on screens and memory.

FASTER, FASTER. Such globe-spanning alliances may be the only way for some computer makers to stay in the game. Take Groupe Bull. It sells NEC Corp. mainframes, IBM workstations, and per-

sonal computers from Zenith Data Systems, which it acquired in 1990. Bull has sold 4.7% of its equity to NEC and 5.7% to IBM and is developing new computers that IBM will sell, too. Also, it has joined Olivetti and Siemens Nixdorf in Trans European Information Systems, a venture that is bidding on pan-European projects.

"Do I worry about being hollowed out?" asks Michel Bloch, president of Bull Systems Products, the company's main product-development group. "Yes."

ICL IS STILL STANDING—AND STILL REFOCUSING

Peter Bonfield is one of a rare breed. His peers at Siemens, Groupe Bull, Ing C. Olivetti, and Nixdorf Computer lost their jobs amid three years of savage industry restructuring. Yet after eight years on the job, the chairman of Britain's International Computers Ltd. PLC seems more secure than ever. Rarer still, ICL is one of the few mainframe makers outside Japan to remain consistently profitable in the past decade. "I feel like the last of the Mo-



hicans," Bonfield says. What's his secret? Bad luck, of sorts. Facing bankruptcy in 1981, ICL had to turn to Japan's Fujitsu Ltd. for some mainframe processors. That led to selling an 80% stake to the Japanese powerhouse in 1990. But the crisis helped Bonfield refocus ICL's business substantially. Long before rivals felt the need for such moves, he had killed a whole line of mainframes, closed five factories, slashed employment by 32%, and revamped ICL's strategy.

TURNABOUT. The payoff: This year, more than 50% of ICL's \$4 billion in sales will come from software and services, up from 30% in 1987. IBM reached only 36% in 1991. ICL also has targeted just a few industries—retailing, government, and financial services—has specialized in "open" networks using standardized software, and has built a successful desktop business. Says analyst Amit Chaudhuri at market researcher International Data Corp.: "Management has turned the company on its head."

Still, Bonfield expects the current shift to desktop computers to push gross margins down as much as 10 points by 1995. To stay ahead, he has been seeking "catalysts for change." In the past 18 months, ICL has bought PC maker Nokia Data Communications Corp., a PC distributor, a facilities-management firm, and stakes worth \$60 million in 12 software developers. It's also in a joint venture with Bell Atlantic Corp.'s Sorbus unit, which fixes computers.

Last year's \$355 million purchase of Nokia not only boosted European market share but it also delivered shock treatment to ICL's struggling PC arm. "We bent over backwards to make sure Nokia changed ICL, not the other way around," says PC Div. Director David A. Mills. With control over PCs moved to Nokia, ICL engineers were pressured to shave expenses and speed up development. Within three months, the team combined their two PC lines into one. This year, ICL says, shipments should grow 47%, with sales reaching about \$620 million. If so, ICL will rank

BIG SHIFT
BONFIELD HAS
BOOSTED
SOFTWARE
AND SERVICE
SALES

as Europe's No. 5 producer, according to market researcher Dataquest, up from No. 9 last year.

Likewise, Bell Atlantic's Sorbus is teaching ICL's service group how to win contracts on IBM and Digital machines. Says Bonfield: "By integrating ourselves into these other companies, we're changing old mind-sets."

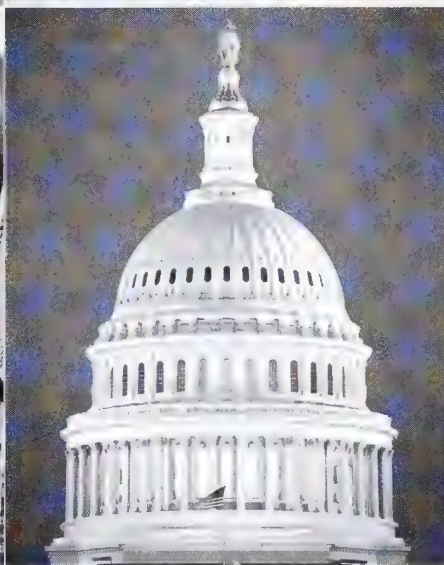
ATM SALES. No doubt the biggest influence will come from Fujitsu. The Japanese company bought control of ICL from STC PLC when the British phone-equipment maker decided it could no longer afford to support ICL. While Fujitsu manages ICL at arm's length, the companies work more

closely than ever. Fujitsu sells ICL PCs and workstations in Asia while ICL pushes Fujitsu automatic-teller machines in the U.S. and supercomputer in Europe. ICL also is developing the optical-communications channels for Fujitsu's next generation of mainframes.

Eventually, subcontractors will probably handle manufacturing and even some engineering for ICL, says Jule Goddard, a visiting professor at London Business School and a consultant to ICL. That would leave ICL to focus on managing big software projects. Says Goddard: "In 5 to 10 years, ICL will be a much simpler, focused business. And it won't be the only one."

By Jonathan B. Levine in London.

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WHEN BENEFITS— AND JOBS—ARE DECONSTRUCTED



A few years ago, when Walter Bucior needed cancer treatment, Unisys Corp. stood by him. As an assembly-line worker in the company's Flemington (N.J.) personal-computer plant, his benefit plan paid nearly all his medical bills. It also paid when his wife, Linda, needed back surgery, and her bills alone topped \$100,000. No wonder Bucior says he never balked at going the extra mile for Unisys.

Now, Bucior, 40, is a victim of Unisys' struggle to slash costs. The company abruptly decided last December that it couldn't keep up as a manufacturer in the cutthroat PC market. So it closed down Flemington in May, leaving almost 700 workers out of a job.

STRUGGLE. Bucior is one of about 400 still jobless. Federal grants are paying his tuition for refrigeration-repair school, but he fears matching his \$25,000 salary will be tough. His severance—a week's pay for each year of work—is long gone, and though his \$308 weekly unemployment check helps pay the mortgage, he can't afford \$600 a month for health insurance.

It's true that Unisys is winning praise from investors for its financial recovery—four profitable quarters after seven losing ones—but the pain is

**BITTER
REGAN IN
FRONT OF THE
CLOSED
FLEMINGTON
(N. J.) PLANT**

being borne by thousands. Since early 1991, Unisys has closed 7 of 15 factories and trimmed nearly 25,000 jobs.

For the jobless, the knowledge that Unisys is part of an industrywide struggle to deconstruct costly old organizations offers cold comfort.

So far, new jobs have eluded most of the Flemington workers. Because they were highly trained and highly paid, many may end up working for far less, if they find work at all.

To be sure, Unisys did make some extra efforts. It helped workers qualify for federal trade-adjustment assistance, designed for industries that can show they were hurt by imports. The program pays for up to two years of training and supplements jobless benefits. But many of the workers are bitter that Unisys didn't find another manufacturer for the site, though the company says it tried. "It's a marketable plant and a marketable work force," says Mary Frances Regan, an ex-Flemington worker who is leading efforts to find new employers.

So far, manufacturers have found the 205,000-square-foot site too big. Regan's group has hired a consulting firm to lure employers. Says Regan: "I call it a human recycling project."

By Joseph Weber in Philadelphia

it's a permanent concern. But everything in life is a trade-off. We had to think in terms of cost and time to market."

Indeed, next to cost, the biggest motivation for deconstruction is speed. Vertically integrated companies often have trouble keeping up with the product cycles being set by tightly focused component makers. In PCs, product cycles have telescoped from two or three years in the late 1980s to as little as a few months now. Miss a beat—as Compaq did in 1990 when other PC makers unveiled Intel's i486 first—and profits vanish. **DRACONIAN.** Compaq rebounded last year by slashing prices and overhauling its product line, a move which has put its stock back on Wall Street's buy lists—for the moment. But the outlook for computer stocks remains murky. Some analysts say it's no longer possible to forecast the long-term profitability of computer companies. Over the past several years, investors have been trampled after rosy turnaround promises failed, to be followed by more draconian cuts. Who's to say that more unpleasant surprises aren't in store? "I don't see any management team that has a good plan that is several years forward looking," says Barry Bosak of Smith Barney, Harris Upham & Co.

Steven M. Milunovich, computer analyst at Morgan Stanley & Co., says the industry has begun looking at companies differently: Forget technology and focus on marketing clout. He likes Sun, because its identity as workstation leader is planted so firmly in the minds of computer buyers that it doesn't matter if Sun's technology isn't always ahead. Still, Milunovich warns, "restructuring's safe as a predictor for the near term. You constantly have to, more so than in other industries, reassess the situation. The pieces are constantly moving."

And what does the industry's transformation mean for overall U.S. competitiveness in computers? Judging from the PC industry, the U.S. can field a lineup of aggressive specialty firms that is unmatched anywhere. Unlocking these resources that have been hidden inside the vertically integrated monoliths can only make those companies better at what they do. Competition will pay them to innovate at a ferocious pace. New products may surface that might not have in earlier times.

That's the gleam of a bright future that computer makers can focus on. But in the here-and-now, there is still a painful transformation to struggle through. A massive industry in the midst of deconstructing itself is not a pretty sight.

By John W. Verity, with bureau reports

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THE ACTIVISTS ITCHING TO PUT THEIR STAMP ON THE ECONOMY

Economists of many stripes may play a role in a Clinton Administration bent on reviving growth

Will economists matter again? It's been 30 years since the profession sent its "best and brightest" to serve on President Kennedy's Council of Economic Advisers in Washington. For a few years, the macro-economic magic seemed to work, and economists began to believe they might tame the business cycle forever. Then came the Great Society, Vietnam, guns and butter, OPEC, inflation, and stagflation. By the time Ronald Reagan took office in 1981, economists and economic activism were thoroughly discredited. Less government and lower taxes became key objectives, and few economists—save supply-side cheerleaders—were needed to spearhead the laissez-faire cause.

With the election of Democrat Bill Clinton to the Presidency, economic activism promises to take hold in Washington again. A battle for Clinton's heart and mind has already begun, with briefing books being readied for the President-elect (page 104). Clinton will soon host a conference of business leaders, economists, and others to produce a "national audit" of the economy.

SLEW OF ILLS. The activism that evolves in Washington promises to be of a new kind. Two decades of costly and poorly conceived government spending left the economy with a huge budget deficit and an unsolved slew of social ills. Jobs and incomes, meanwhile, have been squeezed. Confronted with these conditions, most economists have become both more humble and more flexible. Those hankering to get to Washington may be schooled in techniques of stimulating demand, but now they are focusing on investment, research, and training to buoy the supply side of the economy.

Call it supply-side activism—though it is as different from Reagan's supply-side philosophy, which advocated cutting marginal tax rates, then leaving the

economy alone, as night is from day. Today's activists have seen incomes polarize and the budget deficit widen. Their vision is to focus on how best to help people and businesses grow again.

The ascendancy of major competitors, from Germany to Japan and beyond, forced economists of all political stripes to examine how and why some countries and industries advance while others retreat. Today, many economists, even some conservatives, concede that there

is a critical role for government to play in fostering growth, though they still disagree on tactics. Even if only a few academics make it to Washington as advisers, their work could provide the intellectual underpinnings for a 1990s brand

SEVEN THINKERS WHOSE IDEAS WILL MAKE A DIFFERENCE

The work of these economists, all rumored to be in line for high-level jobs in the Clinton Administration, has made them advocates of government activism to achieve stronger growth



ROBERT M. SOLOW

MIT

Solow, 68, received a Nobel prize in 1987 for groundbreaking research on growth theory. Last spring, he led 100 economists in calling for fiscal stimulus



LAURA D. TYSON

University of California-Berkeley

Tyson, 45, is author of *Who's Bashing Whom: Trade Conflict in High-Tech*. She supports some forms of trade intervention and industrial policy

ALAN S. BLINDER

Princeton

Blinder, 47, has focused on such issues as productivity and business cycles. While he opposed fiscal stimulus a year ago, he recently joined economists urging more public and private investment as an anti-recession strategy. He has been a *BW* columnist for seven years



of activism—one that aims to be fiscally responsible as well as socially effective. “Hard heads and soft hearts” is a good phrase for what’s needed,” says Lawrence H. Summers, chief economist of the World Bank. Summers, one of numerous economists rumored to be in the running for a seat on the Clinton CEA, echoes Princeton University economist Alan S. Blinder, also a CEA prospect. Blinder, a *BUSINESS WEEK* columnist, penned *Hard Heads, Soft Hearts*, subtitled *Tough-Minded Economics for Just Society*, before the 1988 Presidential election. Another CEA candidate, Rüdiger W. Dornbusch of Massachusetts Institute of Technology, urges Clinton to be aggressive about cutting the deficit even as he proposes new programs.

EXTRA LIFT. The CEA may end up being unequal or even subordinate to an Economic Security Council. If such a body is formed within the White House, it will likely be headed by a member of Clinton’s inner circle—possibly Professor Robert B. Reich of Harvard University’s John F. Kennedy School of Government.

LAWRENCE F. KATZ

Harvard



Katz, 33, is a labor economist who has done extensive analysis of changing wage patterns, rising income inequality, and the persistence of poverty. He has also

co-authored studies examining the effect on U.S. workers in the 1980s of rising immigration and expanding trade



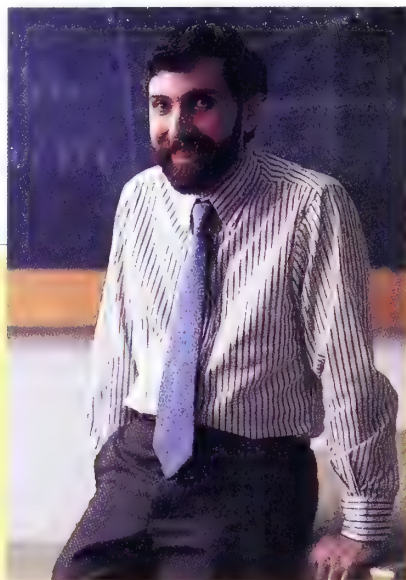
LAWRENCE H. SUMMERS

World Bank

Summers, 38, wants tax policy to spur investment and opposes a zero-inflation target policy. He was on the staff of Reagan’s CEA and a Dukakis adviser in 1988

Both Reich and fellow Clinton adviser and business consultant Ira Magaziner advocate an aggressive competitiveness strategy. Recent research is giving their views on infrastructure, technology policy, and training an extra lift.

The first item on any Clinton agenda will be to ensure that the recovery picks up steam. By now, virtually all mainstream economists have fallen into step with calls for economic stimulus along the lines of the \$20 billion or so in infrastructure spending of the Clinton plan. MIT economist and Nobel laureate Robert M. Solow, a onetime staffer on Kennedy’s CEA, has favored even more aggressive stimulus. He, too, is said to be under consideration for the CEA.



PAUL KRUGMAN

MIT

Krugman, 39, a trade theorist, charted America’s decline in *The Age of Diminished Expectations* and recently warned about rising income inequality

RUDIGER DORNBUSCH

MIT

Dornbusch, 50, is a German-born international trade and finance expert and the author of numerous texts. He has urged pressure on trading partners such as Japan to open up access to foreign goods. He wants the Clinton Administration to move quickly to phase in a deficit-cutting program in order to reduce long-term interest rates



Infrastructure spending—a version of old-fashioned public works—would take government beyond the familiar demand-management of the 1960s. Ironically, it’s a conservative economist who has provided much of the recent ammunition in support of such spending. David Aschauer, who studied at the University of Rochester and now teaches at Bates College in Lewiston, Me., set out to learn whether infrastructure spending was different from other forms of government spending. His research led him to conclude that the drop-off in public spending on roads and bridges in the U.S. over the past two decades had a large and measurable impact on the rate of private investment, productivity, and overall growth.

SOCIAL RETURNS. Aschauer’s work is but one example of research in what economists call externalities. An externality is something outside the ability of an individual consumer or business to control, but which nonetheless has a significant impact. A positive externality, for instance, might be a scientific discovery that quickly enters the public realm and can be used by hundreds of manufacturers, not solely by its inventor. A negative externality could be a poor, declining school system, whose graduates tend to narrow the pool of skilled workers available for hire by local employers.

The World Bank’s Summers, for instance, suggests that there may be significant externalities or social returns from rapid capital accumulation. If so, the case for encouraging capital investment through an investment tax credit or some other device is very strong. Here, the objective is to focus on the supply of capital in the economy. Summers has shown that a rise of one percentage point in the machinery-investment share of output is associated with an increase of 0.26 percentage point per year in the rate of economic growth.

MIT economist Paul R. Krugman—still another CEA prospect—has examined the imperfect competition and externalities that mark global trading relationships. Although Krugman doesn’t endorse protectionism, his findings have pointed the way for advocates of “managed trade,” who favor government intervention to secure market shares.

Laura Tyson, international economist at the University of California at Berkeley, believes that bilateral arm-twisting may at times be necessary with such trade adversaries as Japan. But she adds that trade policy is “not an adequate substitute” for a domestic technology policy to develop and promote leading technologies in America. Tyson helped Reich to draft

A LIBERAL REWORKING OF LIBERAL IDEAS

Inflation may be down in the economy, but it's still high in the policy-advice business. In 1980, the conservative Heritage Foundation published *Mandate for Leadership*, a 1,000-page road map for Reagan's transition to power. In 1988, its *Mandate for Leadership III* for the Bush transition team weighed in at 953 pages. Now the conservatives are silent. But the liberals have more than taken up the slack.

The Citizens Transition Project, headed by Mark Green, New York City's Commissioner of Consumer Affairs, has sent President-elect Clinton a 1,200-page tome by 80 authors. *Changing America: Blueprints for a New Democracy* is a liberal how-to manual with "hundreds of reforms—large and small, short-term and long-term, legislative and administrative—for a better America."

RETREADS. There's lots more. New York Governor Mario M. Cuomo offers his economic advice in *America's Agenda: Rebuilding Economic Strength*. The Brookings Institution has its reasoned, pragmatic *Setting Domestic Priorities: What Can Government Do?* The Progressive Policy Institute, closely linked with the moderate Democratic Leadership Council and Clinton's campaign, has its own transition guide.

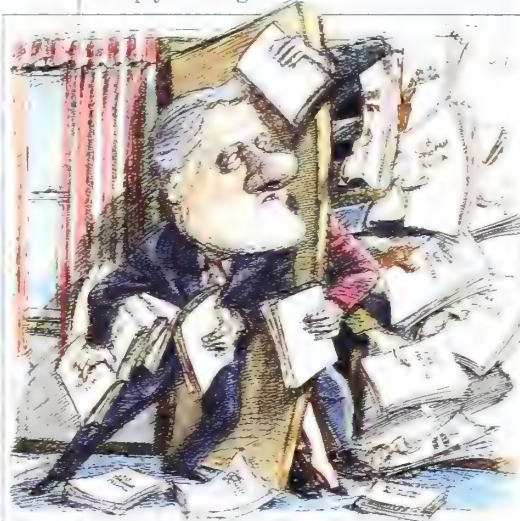
Many of the unsolicited ideas in these reports don't rate Bill Clinton's attention. Some of the papers in the Citizens Transition Project tome, for example, are rhetoric-heavy and analysis-light. Green himself relies too much on such phrases as "laissez isn't always fair" to demonstrate competition's limited benefits. Others are simply retreads of old proposals, such as Ralph Nader's call for a federal Consumer Advocacy Office. The Cuomo report ducks when it comes to curbing the federal deficit. Most of the proposed tax hikes and spending cuts in the report await the "recommendations" of a yet-to-be-formed National Budget Commission.

Despite their disagreement, these papers hold some powerful ideas in common and reveal how the liberal agenda has changed. For one, while liberals still fret about income inequality, their

main focus is getting the economy growing. And they now assume that while the government can drive social change, it cannot solve all social ills.

The key to economic growth, say the liberals, is investment spending, public and private. As the Cuomo study puts it: Our "investment shortfall extends from factories and equipment to public infrastructure, from work force training to research and development for new products, from bridge maintenance to innovative technologies."

To raise public and private investment calls for an activist government, say the liberals. The 1980s showed that simply cutting tax rates and



relying on the free market to do the rest just won't work in today's global economy. By and large, the liberals want Washington to encourage private-sector investment by passing an investment tax credit and cutting capital-gains taxes, but only for long-term investments. They also want to shift defense research and development spending to civilian purposes and create a universal health-care system.

Meanwhile, the liberals have abandoned their reliance on government to solve social problems. They now emphasize individual responsibility: The government should help out the homeless and reform the welfare system, but policy should put more weight on self-help and rewarding work.

Liberals are still activists. But their old cry for government to solve any problem is hardly a whisper today.

By Christopher Farrell in New York

documents for the Clinton campaign. Technology policy is a tent under which growing numbers of academics and businesspeople are gathering, and, too, addresses the supply side of the economy—the supply of ideas. Today's growth theorists argue that the biggest source of growth in the economy-a large is knowledge. And since ideas and innovations become widely available quickly, their originators can't hope to capture outside rewards. Thus, the diffusion of knowledge must be pursued as public good, argues Paul M. Romer, an economist at the University of California at Berkeley.

Romer, who was trained at the conservative economics department of the University of Chicago, frets that government may muck up this process. Instead of having government plow dollars into research and choose which technologies and industries to support, he suggests that companies be allowed to set aside money that they then could allocate to research consortiums. Government would simply write the legislation allowing companies to pool research money. **'PEOPLE FIRST?'** Perhaps the most important consideration for the new activists will be people. Clinton has vowed that his policies will "put people first," and the data on income growth and inequality show why that's so important. Researchers of both liberal and conservative bent have demonstrated that what's shifted over the past couple of decades has led to greater income inequality.

While explanations of the increasing income inequality vary, Lawrence Katz of Harvard University and Kevin M. Murphy of the University of Chicago attribute it to rapid secular growth in the demand for more-educated and better-skilled workers. Katz, who crunches numbers on the national and Arkansas economies for the Clinton campaign, might end up as a staff economist at CEA, argues that there's a role for education and training in ameliorating the social effect of these trends.

Most economists today still worry that economics and politics don't mix and that government inevitably will screw up the best-laid plans. Still, the profession has come a long way in figuring out the nature of many economic and social problems. Today, many economists are ready to take a chance on new ideas. "Like with a garden, you have to keep weeding," says MIT's Dornbusch, "but you have to start with growing the garden." If Bill Clinton picks up on these ideas, economists may get a chance to prove they can help cultivate a healthy economy in the 1990s.

By Karen Pennar and Christopher Farrell in New York

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HONEST BALANCE SHEETS, BROKEN PROMISES

Now that FASB requires retirees' health costs to be counted, companies are slashing them

Accounting rules, an abstract realm known to few, have introduced a harsh new reality into Clifford Davis' retirement. Navistar International Corp., where Davis worked as a maintenance man for 32 years, has long picked up the medical bills for its 40,000 pensioners. But starting Jan. 1, an accounting-rule change requires many large companies to include on their balance sheets immense sums for these ever-more-costly health benefits.

So the Chicago-based truckmaker wants to cut back its two-decade-old plan, forcing Davis and fellow retirees on fixed incomes to fork over a hefty chunk of money for their coverage. Money-losing Navistar says it will go bust if former workers don't pick up part of their health costs. Yet Davis, who lives in a trailer in McCordsville, Ind., and is not yet 65, contends that he would have

to shell out 25% of his monthly \$1,400 pension check. Says Davis: "I can't afford to pay."

Lots of other corporations are axing or curtailing retiree health benefits (table), hoping to minimize the financial broadside of the so-called 106 rule, as well as curb runaway health costs in general. The rule was adopted in 1990 by the Financial Accounting Standards Board, the overseer of U.S. accounting criteria. As FASB sees it, failing to recognize the steadily growing health-care liability misleads investors about a company's financial condition.

Some large companies with strong balance sheets that can afford the hit are simply taking a one-time earnings and net worth write-off. But others, often less robust outfits like Navistar, are finding ways to circumvent the full force of 106 at their retirees' expense.

McDonnell Douglas Corp. is replacing its health plan for white-collar retirees by giving each a one-time payment of \$18,000, using surplus pension-fund money. This will halve the St. Louis plane maker's liability under the FASB rule, to \$700 million. But after 1996, most bet are that payments to new retirees will be eliminated. According to a survey by the consulting firm A. Foster Higgins & Co., almost two-thirds of U.S. companies will have scaled back or eliminated the benefits by next year. "Employers are backpedaling like crazy from their commitments to workers," complains Clara Hushbeck, a senior analyst at the American Association of Retired Persons.

Certainly, retirees are the easiest target: They can't strike or quit for another job. Management "is picking on a group that can fight back the least," says Jerry Feldscher, a pensioner at Unisys.

corp., which intends to phase out its plan entirely by 1995.

Retirees slammed with health-care costs do have an option. Many are fighting back in court, although too few cases have been decided to discern a trend. Thus far, the key legal issue is how explicit the company has been in promising medical benefits (box). As a result, most employers steer away from cutting programs for union retirees because those plans are usually written into labor contracts. General Motors Corp., for instance, imposed 80% reimbursement limits on white-collar pensioners' bills but left United Auto Workers retirees alone.

CALCULATION. Navistar is bolder. Planning to save 71% on retiree health-care costs, it tried to ram through the benefits reduction for both union and nonunion pensioners. But the UAW launched a legal counterstrike that threatened to tie the company up in court for years. As a compromise, the union and the truck manufacturer have agreed to reopen their contract now, a year before the pact expires, to negotiate health issues.

Retiree health plans first came into vogue in the late 1960s and early 1970s, after Medicare was enacted. The idea was that the plans would take care of areas not covered by the federal medical program for the elderly: prescription drugs, home nursing care, and hospital stays beyond 90 days. "They thought the cost to supplement Medicare would be small," says Richard Ostuw, a vice-president at consultant Towers Perrin Foster Crosby. Wrong. For the past few years, the cost of corporate retiree health plans has been surging at a 15% annual clip.

Employers have two unappetizing choices under the new rule. They can either amortize the cost of the benefits over 20 years or take the entire charge to earnings in the first year. IBM took its

HANDLING THE HEALTH-CARE HITS

Company	Charge to earnings Millions of dollars
GENERAL MOTORS	\$16,000-24,000
Likely 20-year phase-in. Will announce plans in February. Has imposed health-care reimbursement limits for white-collar retirees	
HEWLETT-PACKARD	544
Taking charge-off now. Looking at making retirees pick up more of medical tab in 1994	
MCDONNELL DOUGLAS	700
Currently taking hit. Ending company subsidy of health care. Until 1996, nonunion retirees will get \$18,000 each to fund care. Program may not continue after that	
NAVISTAR	2,500
Phasing in charge-off over 20 years. Tried to make retirees pick up part of medical expenses, but union thwarted move in court. Now negotiating with union	
UNISYS	170
Hit, being taken now, will be offset by tax savings. Phasing out subsidy of health plan by 1995, when nonunion retirees will have to foot their entire insurance bill	

DATA COMPANY REPORTS

\$2.6 billion earnings hit in the first quarter of 1991. Analyst Philip C. Rueppel of Sanford C. Bernstein & Co. says Big Blue wanted to show that the rule "wouldn't be a big deal for them." Despite rocky times, IBM has not announced any benefit reductions.

But the most vulnerable companies are waiting until the last possible minute to reveal how they will stomach the 106 rule. Consider the desperate situation at GM: a potential charge ranging from \$16 billion to \$24 billion. The carmaker plans

to say how it will handle the problem in February. Most analysts expect it to spread the shock over 20 years. After all, the higher figure would gobble up most of GM's net worth. The auto giant, which is mired in red ink as well as unfunded pension liabilities, could much more easily withstand the slow nibbling of amortization, at \$800 million to \$1.2 billion per year.

'SOFT NUMBER.' Saving the day, of course, would be some form of national health insurance to bridge the gaps left by Medicare. President-elect Bill Clinton wants to widen the availability of health-care coverage, and the Democratic-controlled Congress seems receptive to the notion. Whether the legislative process will get to the plight of corporate retirees is an open question. Still, McDonnell Douglas hopes that by 1996, when its \$18,000 subsidies to retirees will likely end, some government measure will be in place. "We don't know what will happen by then, but we can hope," says spokeswoman Barbara Anderson.

Meanwhile, the FASB rule will drag down corporate performance across the board in 1993. Shearson Lehman Brothers Inc. figures that without the rule, Standard & Poor's 500-stock-index companies would enjoy a 17% boost in earnings per share next year. With it, the S&P 500 may climb only 10%. On the plus side, no money for health-care liabilities need be immediately diverted from operations or capital spending. "This is the ultimate soft number," says Solomon Samson, S&P's managing director for corporate finance.

Eventually, though, affected companies must come up with cold cash. That's why, bean-counting contrivance or no, the rule has led companies to limit the liability by slicing retiree health plans. And that's how the abstract art of accounting has a real and painful impact.

By Larry Light, with Kelly Holland in New York and Kevin Kelly in Chicago

THE IMPORTANCE OF BEING EXPLICIT

Promises, promises. That's what the courts are looking for in the growing number of suits by disgruntled retirees whose health-care benefits are getting blown away.

At first sight, the law seems stacked against retirees. There is no statute giving them a legal claim to specified medical benefits after a certain time on the job. Unlike pensions, medical benefits don't vest. But courts also have said that retirees may receive medical coverage if their employer has made

promises in employee handbooks, filmstrips, health-plan summaries, meetings, or exit interviews. Those pledges, in effect, become binding contracts.

Courts tilt against retirees, though, when employers include explicit caveats in their plans. "The legal issue usually focuses on whether the company has made it unambiguously clear that it retains the right to modify the benefits or eliminate them," says Christopher G. Mackaronis, a Washington lawyer representing 84,000 salaried retirees who are suing General Motors Corp. after the company required them to pay part of the health tab.

Benefits consulting firms are advising companies not to promise anything. Instead, they counsel that all written

and oral communications to workers should specifically and consistently state that the company can change benefits at any time. "Companies that have thought about this are taking action to keep their options open," says Henry Saveth, a principal at A. Foster Higgins & Co., a consulting firm.

To ease the burden on companies that are locked into past commitments, industry has been urging Congress to enact tax breaks for funding health benefits in advance. That would give them the same tax treatment as pensions. But lawmakers probably won't do that unless companies guarantee retiree health benefits, too. That may be too high a price for companies to pay.

By Susan B. Garland in Washington

IS MR. RUBIN GOING TO WASHINGTON?

Goldman Sachs's co-chairman has his eye on the Treasury job

One day in the early 1970s, Henry H. Fowler, a partner at Goldman, Sachs & Co. and former Treasury Secretary in the Johnson Administration, called Democratic Party chief Robert S. Strauss. The subject of the call was Robert E. Rubin, a young trader in Goldman's risk arbitrage department. Recalls Strauss, now U.S. Ambassador to Russia, Fowler wanted to tell him about "a bright youngster, one of the few Democrats at Goldman Sachs. . . . He said, 'Can I send him down to see you?' He loves Democratic politics.'" Strauss has been a close friend of Rubin's ever since. "I knew him when he was a young pup, and now he's a full-grown dog, and quite a huntin' dog," says the Ambassador.

Rubin's love of politics hasn't abated. His friends believe he would like nothing more than to be Treasury Secretary in the new Clinton Administration. Rubin is already a Clinton economic counselor and helped prep him for the Presidential debates. A conservative Democrat, he helped persuade Clinton to hold

down his plans for initial infrastructure spending for fear it would boost the deficit and spook the markets.

What could give Rubin, 54, a leg up over other candidates is his record at Goldman. Since Fowler's call to Strauss, Rubin has risen to become co-chairman, with Stephen Friedman, of Goldman, which is considered the best-managed and most profitable firm on Wall Street, with the arguable exception of Morgan Stanley & Co. Goldman is also a major player in virtually every financial market, from bonds to commodities. "Bob would be a new breed of Treasury Secretary, who understands how these vast global markets work," says Richard H. Jenrette, chief executive officer of Equitable Cos.

Rubin likely faces tough competition for the job. Unlike the financial community's favorite, former Federal Reserve Chairman Paul A. Volcker, Rubin lacks government experience and is largely unknown. "Just because he works for Goldman Sachs doesn't mean the market knows what he stands for," says Edward E. Yardeni, chief economist at C. Lawrence Inc.

Rubin's side career in politics has included fund-raising for numerous politicians, such as Walter F. Mondale and Michael S. Dukakis. He's friendly with New York Governor Mario M. Cuomo and New York City Mayor David N. Dinkins. His wife, Judith, is protocol commissioner for Dinkins.

Rubin's chances for a top Washington post are hard to predict. Clinton's talent searchers have been very closemouthed. Rubin himself declined to be interviewed on the record for this story.

But Rubin's political connections will help. "Bob has strength most Wall Street guys don't: He has a wide breadth of relations on the Hill," says Richard Ravitch, a former New York City mayoral candidate and a personal friend of Rubin's.

'PEOPLE SKILLS.' While many business executives who serve in government can't shed their autocratic ways, Rubin's political instincts could play well in Washington's consensus-centered culture. "He has marvelous people skills," says Roger C. Altman, the vice chairman of Blackstone Group and also a possible Treasury candidate. "He's very good at coalition-building." Adds Goldman's Friedman: "He's very pragmatic, not an ideologue."

Colleagues describe Rubin as unassuming, unpretentious, and

popular leader. Says one: "He came up through the ranks, and he hasn't been in management long enough to forget it."

While Rubin's is extremely effective behind the scenes, he could flop on the public stage. One individ-

RUBIN: MIXING FINANCE AND POLITICS

1938 Born in New York City. Later educated at Harvard, London School of Economics & Political Science, and Yale Law School

1964 Became an associate at the New York law firm of Cleary, Gottlieb, Steen & Hamilton

1966 Joined Goldman, Sachs & Co.

1971 Elected partner

1984 Served as New York State finance chief for Walter Mondale

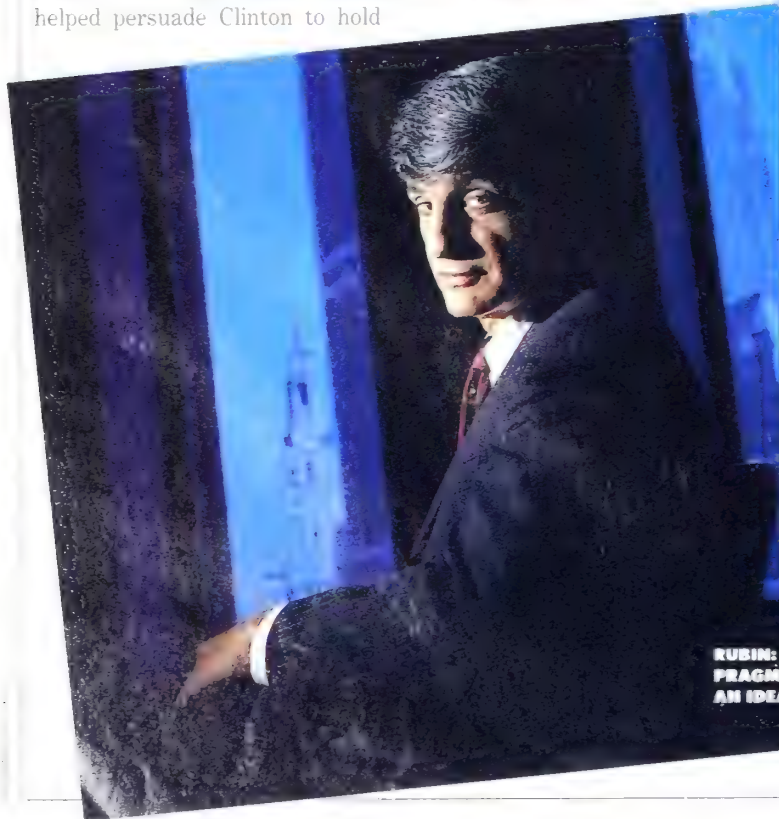
1987 Appointed Goldman's vice-chairman and co-chief operating officer

1988 Worked as fund-raiser for Michael Dukakis

1990 Became co-chairman with Stephen Friedman

1992 Served as chairman, New York City Host Committee for the 1992 Democratic convention and was a fund-raiser and economic adviser to the Clinton campaign

DATA: BW, GOLDMAN, SACHS & CO.



RUBIN: "HE'S VERY PRAGMATIC, NOT AN IDEOLOGUE"

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who knows him well says that Rubin lacks the commanding presence that most successful political leaders seem to possess.

That hasn't slowed Rubin down so far. He attended Harvard University, the London School of Economics, and Yale Law School. After two years of practicing law, he joined Goldman in 1966. Under the tutelage of legendary Goldman trader Gus Levy, Rubin made his mark as head of the firm's arbitrage department. He and Friedman became co-chairmen in 1990.

FIERCE COMPETITOR. Rubin and Friedman have already had a big impact on the intensely secretive private partnership. Last year, Goldman reaped a record \$1.1 billion in pretax profits. That's partly a result of Rubin's and Friedman's savvy strategic moves. The two have diversified the firm into new markets while reducing head count. And although Rubin and Friedman have kept Goldman focused on servicing clients, they have increased Goldman's trading for its own account. Rubin's biggest success was turning around J. Aron, the firm's commodity division, which now accounts for a third of Goldman's profits, largely from oil and currency trading. Rubin also spearheaded Goldman's lucrative international expansion by cultivating government leaders and clients in Mexico, Russia, and Spain.

A fierce and arrogant adversary that is not above preying on its competitors' weaknesses, Goldman has had its share of setbacks. It was the banker for the leveraged buyout of R. H. Macy & Co., which later went bankrupt. It traded extensively with British publisher Robert Maxwell's now-defunct empire. In 1991, Goldman Sachs had to end a merchant-banking fund abruptly when clients complained that the firm was profiting at their expense. It was also sued by two women employees for sex discrimination. Only 6 of the firm's 165 partners are female.

The firm got its worst black eye when Goldman partner Robert A. Freeman pleaded guilty to one felony related to an insider-trading transaction in 1990. Freeman was fined \$1 million and spent four months in jail. Rubin, who was Freeman's boss, coordinated Freeman's defense at Goldman. The firm paid Freeman's legal bills.

These unpleasant matters would likely come up at confirmation hearings if Rubin were to get a Cabinet nomination. Yet, given Rubin's strong points, that's unlikely to affect Bill Clinton's decision on whether to give Rubin a chance to merit in Washington.

By Leah Nathans Spiro in New York, with Deborah Stead in Moscow

Commentary/by Joan O'C. Hamilton

BIOTECH MAY BE FLYING TOO NEAR THE SUN AGAIN

Here we go again: Biotechnology stocks are on the move. Since the beginning of October, over-the-counter biotech stocks have climbed some 16%, vs. 0.2% for the Standard & Poor's 500-stock index. In press releases, analyst reports, and financial publications, the drumbeat is ongoing. The companies would like you to believe that events of consequence, bespeaking the stunning potential of the industry, are behind the rise.

But consider Synergen Inc., which moved up 2% last week—a 5% gain—on the unremarkable news that it had finished enrolling patients in a clinical trial of a new drug and would start a new phase of testing. Or Gensia Pharmaceuticals Inc. in San Diego, whose

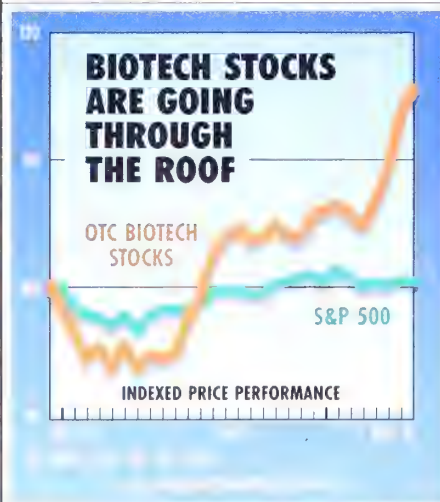
same reason. By spring, however, the hype was gone, and the market mercilessly chopped the shares of big and small, savvy and bumpkinesque companies. That left slow-moving biotech investors in a very bad mood.

They've been brightening a bit lately. Optimism over President-elect Bill Clinton's support for boosting high-tech companies through tax incentives has superseded fears that he would crack down on drug pricing once he takes office. (That makes sense, because companies that don't have anything to sell haven't much to fear from price strictures.) Meanwhile, quite a few companies have been moving up, analysts say, because they'll be presenting promising data at medical meetings in coming weeks. The medical-meeting-movers include Biogen, Centocor (page 71), and Immunex. Others have gained because of short-covering by short-sellers who had "overstayed their welcome on the downside and got spooked," says Alex. Brown & Sons Inc. broker Michael G. King.

THE SPORTS-CAR FACTOR. Quite a few buyers have been egged on by new theories on how to "bottom-fish" for cellar-dwelling biotech issues. Some pundits recommend exotic investing formulas to spot undervalued stocks, such as dividing shares outstanding into research and development spending or totting up the ratio of PhDs on staff to shares outstanding. Unfortunately, they neglect such factors as the number of shiny sports cars in a biotech company's parking lot—a common symptom of the dreaded "self-enrichment" syndrome that even gene-spliced drugs can't cure.

How much time is left for investors to experiment with these finely tuned "strategies"? Oppenheimer & Co. analyst Jeffrey Casdin believes the current rally could be a quick fizzle once short-sellers finish covering their positions. But others predict a strong rally at least through January. The momentum is, they say, too strong to resist. Says Sutro & Co. broker Richard Beck: "Most people who do well just play biotech when it's moving."

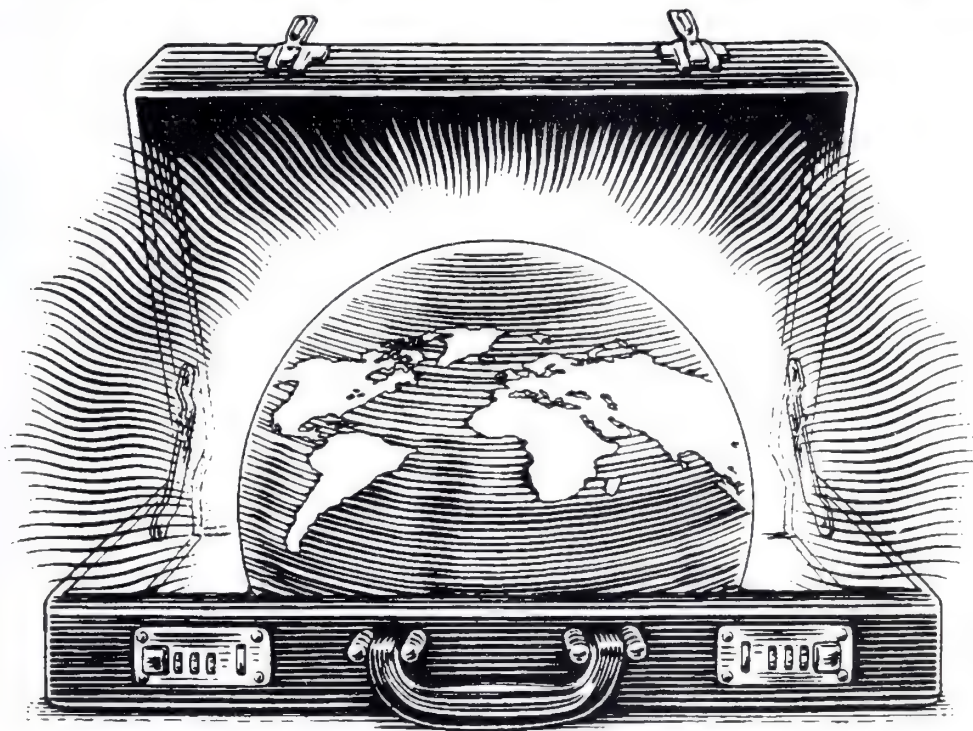
In other words, the Greater Fool Theory is at work here. Which is fine—so long as you're not the greatest fool.



shares climbed 10% on the same day. The market's rejoicing was prompted by the expected announcement that it would file for approval to market a drug to prevent heart attacks in surgical patients. All this is akin to the market going bananas over headlines such as "Focus Group Continues Study of New Toothpaste" or "Ford Confirms It Will Proceed With Plans for Cars."

Here comes another biotech stock cycle—a mind-numbing melange of confusing or banal "progress" reports, combined with a strong dose of market momentum. And if all this has a familiar ring to it, that's not surprising. About this time last year, biotech companies were punching through their all-time high marks for pretty much the

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HOW MANAGED FUNDS MANAGED TO DO SO POORLY

By rights, they should have thrived amid the currency turmoil

Commodity fund managers are a swashbuckling lot. Unlike the folks who run stock and bond portfolios, commodity traders thrive on market chaos. Their computerized trading systems are designed to exploit volatility in the futures and options markets, no matter which way the market goes. Well, the world currency and interest-rate markets are moving, all right—yet the commodity funds have been left in the lurch.

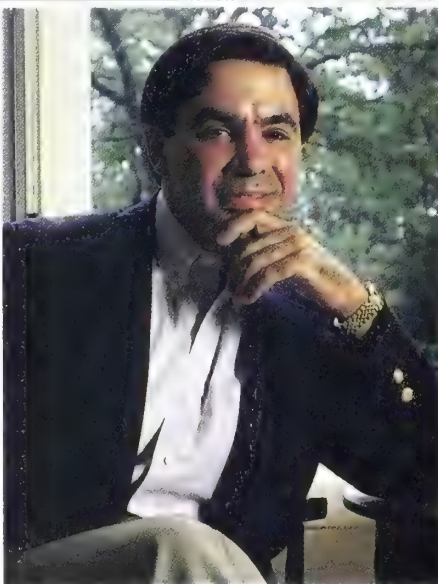
Their poor showing in a crucial period raises questions about the ability of commodity funds to deliver the high rewards that their high-risk profile would seem to promise. True, some of the largest funds achieved double-digit gains through Sept. 30, largely on the strength of currency and interest-rate bets earlier in the summer. But when those markets really went wild in September, the funds failed to cash in (table). On average, managed futures funds lost 2% in September and posted only slight improvement in October. Through Sept. 30, the funds are down 1.8%.

Their dreary performance contrasts sharply with the gains racked up by hedge-fund manager George Soros and supertrader Paul Tudor Jones, who recorded huge profits by trading currencies and European interest-rate futures. "This has not been a banner year for managed futures," says George E. Crapple, co-chief executive officer of Millburn Ridgefield Corp., which runs \$650 million in futures portfolios.

'WHIPSAW PERIOD.' Indeed, commodity funds have suffered through nearly two years of poor performance. In 1991, while equity investors were thriving, commodity funds eked out a 4.8% gain, according to *Managed Account Reports*, a New York-based newsletter that tracks futures funds. But throughout 1991 and much of this year, the markets were listless, giving traders few opportunities for profits.

What went wrong in September? For the most part, the losers were "trend-following" traders who use computer programs, not "discretionary" traders such as Jones, who make decisions depending on their view of market fundamentals. The trend followers got caught because their computers can't foresee

earth-shattering fundamental factors—in this case, the collapse of Europe's system of linked exchange rates, the Bundesbank's sudden interest-rate cut, and the devaluation of the pound. "This has been a whipsaw period for people who try to follow trends," says Jim Lit-



HOW THE LARGEST MANAGED FUNDS HAVE FARED

Fund	Size Millions	Performance	
		9/92	Year*
TROUT TRADING	\$277.2	1.0%	16.3%
MERRILL LYNCH SECTOR STRAT. III	160.3	-2.0	-6.6
DEAN WITTER CORNERSTONE IV	111.5	-4.2	13.6
DEAN WITTER PRINC. SECURED	108.3	-7.3	-2.2
FENCHURCH GAMMA	107.2	-1.7	12.9
DEAN WITTER DIVERS. FUT. III	97.7	-4.1	12.2
MERRILL LYNCH SECTOR STRAT. IVA	92.0	2.8	-4.3
GAIA HEDGE II	84.5	-3.0	6.5
ILLINOIS INCOME INVESTORS	82.0	0.5	11.5
DEAN WITTER PRINCIPAL PLUS	75.7	0.3	-6.6

*Jan. 1-Sept. 30, 1992

DATA: MANAGED ACCOUNT REPORTS

tle, director of development for Campbell & Co., a trend-follower.

A good example of the traders' troubles came on Sept. 9, when reports abounded of an imminent collapse of Europe's exchange-rate mechanism. At Hawksbill Management Co. in Santa Rosa, Calif., the computers were blindly following the trend set forth by the market's previous action and were continuing to issue buy orders. But Hawksbill President Thomas Shanks overrode the computers, selling the pound and buying the mark. Within days, the British devalued the pound and the Germans cut interest rates, and Shanks pocketed a \$2.1 million profit, accounting for much of his firm's 19% gain in September.

Most trend followers obeyed their computers and got creamed. The losers included some of the largest commodity trading firms. Demeter Management, which handles nearly \$800 million in commodity fund assets for Dean Witter Financial Services Group Inc., saw its portfolio decline more than 3.2% in September. Dun Capital Management, which handles \$200 million in fu-

tures assets, posted a 7% loss. And the commodity trading giant John W. Henry & Co. lost more than 4.4% on \$725 million of its funds that trade heavily in currency and interest-rate markets.

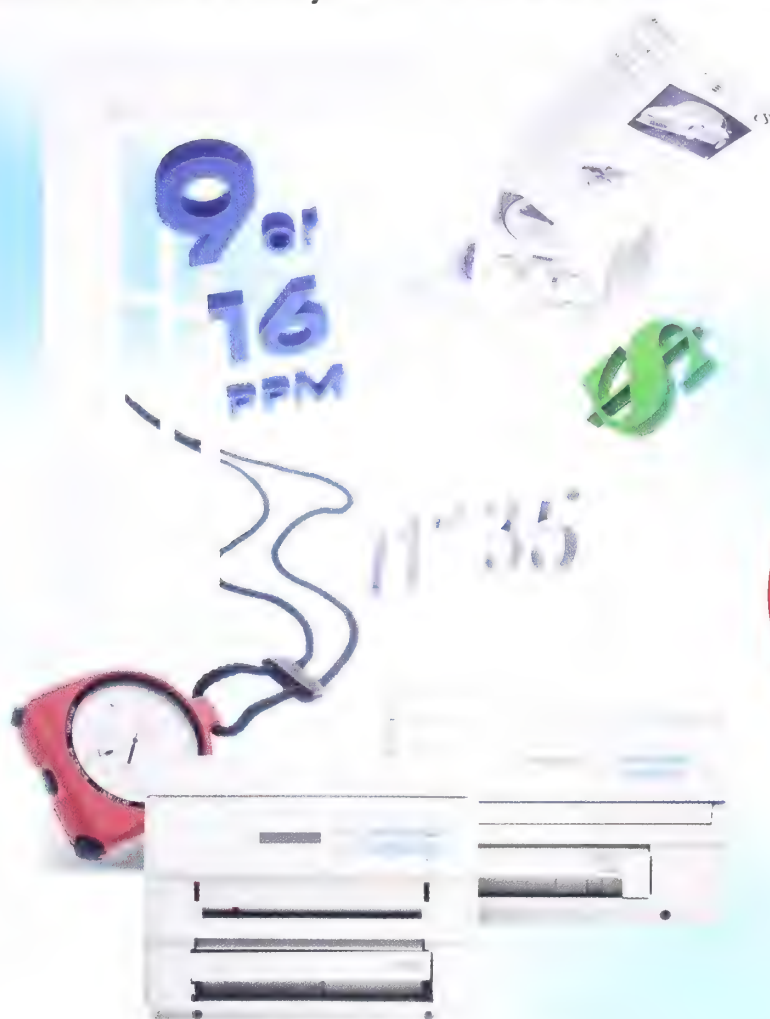
NARROW ESCAPE. Fund managers who avoided the slaughter either made correct bets, like Shanks, or were out of the market entirely. At Millburn Ridgefield, for example, a risk-control program signaled traders to exit or drastically trim most of its current positions in early September. In an hour of hectic trading, Millburn unloaded more than \$1.5 billion in marks, yen, Swiss francs, and pounds, narrowly escaping their collapse against the dollar. Millburn's tally for the month: a hard-earned 0.24% gain. "We would have had horrendous losses if we hadn't cut our size," says Crapple.

Trend followers are trying to make sense out of their dismal recent returns. "When you look past the superficial question of how we did, you look under the hood and see immense change in the global markets," says Kenneth G. Trepin, John W. Henry's president. "Volatility is just a harbinger of new trends to come."

Maybe. But futures traders are supposed to make money by exploiting volatility. Performance isn't a "superficial question" if you were among the thousands of commodity-fund customers who lost money when the currency market went bonkers.

By David Greising in Chicago

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PPM	9 ppm	9 ppm	9 ppm	16 ppm
Emulation	HP LaserJet II	HPLJII/PostScript	HPLJII/PostScript II	HPLJII/PostScript II
Processor	68000	68000	RISC/8220	RISC/8220
Fonts	14 HP Fonts	17 or 35 Scalable	35 Scalable	35 Scalable
List Price	\$999	\$1,399/\$1,499	\$1,749	\$3,649

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BY GENE G. MARCIAL

WILL MURDOCH HOME IN ON HOWTEK?

What a difference a year makes. Last November, Howtek seemed a lost cause. Its stock had spiraled down to 2½ from 27 in 1987. But new life has come back to this designer and maker of desktop color scanners. The stock has climbed to 16 and looks poised to move even higher.

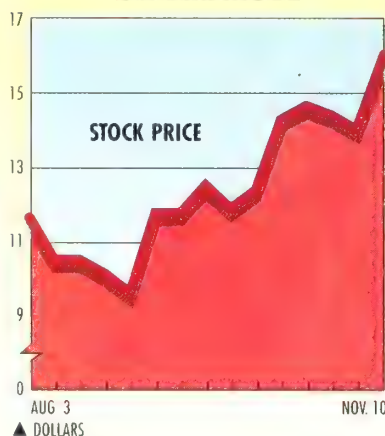
Some smart-money investors have been snapping up Howtek's shares partly because the company's new products, widely used by newspapers, magazines, and commercial printers, have started to catch fire. In the red since 1985, Howtek is now making money. But once again, some pros are eyeing publishing mogul Rupert Murdoch, News Corp.'s chairman and CEO, who controls a 22% stake in Howtek, matching the 22% holding of Howtek Chairman and CEO Bob Howard.

IN LIVING COLOR. Whispers are that Murdoch wanted to acquire the company four years ago when he started accumulating shares but that Howard persuaded him to hold off. Murdoch can raise his stake up to 25% under the terms of a standstill agreement, but now Howard may agree to let Murdoch raise his holdings beyond the limit, according to one New York money manager. Howard, who has a friendly relationship with Murdoch, says he wouldn't object if Murdoch were to ask for a seat on Howtek's board. Howard says Murdoch likes Howtek because of its color-scanning technology, which he sees as a big advantage in publishing.

Howard is the inventor of the matrix impact printer and founder of Centronics Data Computer, whose stock zoomed from 7 a share to 450, unadjusted for several splits, from 1970 to 1980, when Control Data acquired it.

Kemp Fuller, an investment strategist at RAS Securities, expects Howtek to earn 47¢ a share this year, \$1.50 next year, and \$2.30 in 1994, untaxed, because the company had an operating-loss carryforward at the end of 1991 of \$33.2 million. He bases his estimates on a projected jump in the sales of Howtek's Scanmaster D4000, introduced late last year. The D4000 scans, or digitally photographs, reflective or transparent images at resolutions from 50 to 4,000 dots-per-inch.

HOWTEK IS ON THE MOVE



DATA: BRIDGE INFORMATION SYSTEMS INC.

This product "is a high-resolution scanner targeted toward publishers, color separators, and commercial printers in the mid-range electronic prepress market," says Howard, who believes D4000 will be a "blockbuster" product. Fuller notes that the new product retails for \$39,700 a unit vs. competing products selling at more than twice that price. He adds that by gaining share in both the high and low end of the market, Howtek will be the industry's major player before long.

A HEALTHY GLOW FOR HOMECARE

Ever on the lookout for the next long-run market winners, investment adviser Andrew Lanyi thinks that the best bets now are young companies with growing "repeat-order" products or services. He believes he has discovered such a gem.

It is Homecare Management, a supplier of drugs and at-home treatments for people who undergo organ transplants or people afflicted with serious chronic ailments whose health needs aren't being directly served by the big companies in the business. Homecare's stock has risen from 5 in late September to 9½ a share on Nov. 10. Lanyi, who heads Lanyi Research Div. of Ladenburg Thalmann, says the stock could hit 19 in a year.

Homecare is the only pure play for transplant-related therapies and services, notes Lanyi. Demand for Homecare's type of services is going strong, he adds, because of the increasing number of transplant patients.

Analysts figure that Homecare will

earn 30¢ a share in the year ending Apr. 30, 1993, vs. 22¢ a year ago. They expect earnings to rise to 45¢ in fiscal 1994 and to 65¢ in fiscal 1995. Homecare Chairman, CEO, and President Clifford Hotte says the estimates are "within reach and reasonable." Right now, Homecare is serving about 70 of the nation's estimated 265 organ-transplant centers. The company, says Hotte, can double its business "without straining our resources" at its current facilities in the states of California, New York, Pennsylvania, and Texas.

BLACK GOLD IN WEST TEXAS

When money manager Alan Gaines recently visited the Permian Basin area of West Texas, what caught his eye was the increased drilling activity. In part, the pickup stemmed from the sale of properties by major integrated oil companies to the smaller independents, which have been willing to drill where the majors fear to tread.

This situation bodes well for some companies, says Gaines, president of New York securities firm Gaines Berland, which specializes in oil and gas investments. One of them, he believes, is Small's Oilfield Services, an independent equipment and tool rental company in West Texas. Its stock is one of the many oil-related issues that are ignored by the Street, but Gaines believes that Small's is undervalued, "based on the company's excellent growth prospects." The stock is trading at just about its book value of 5, and Gaines is betting that in two years, it will be worth 8 to 10 a share.

Small's services about 200 customers, including some of the big major oil companies such as Texaco and Exxon. With its expanded capital base aided by a recent securities offering, the company can now pursue bigger jobs that it couldn't bid for a year ago.

The job prospects for Small's are huge, says Gaines, who notes that there are 50,000 producing wells in the Permian Basin within a 90-mile radius of Odessa, Tex. In the year ending Aug. 30, 1993, Gaines expects Small's to earn \$1.05 a share vs. last year's 92¢; he sees cash flow rising to \$1.45 a share from \$1.21 a year ago. In 1994 net should jump to \$1.25 and cash flow to \$1.80, says Gaines. Small's is in talks to acquire another tool company much bigger than itself. That should boost earnings even more.



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TELECOMMUNICATIONS

MOTOROLA'S IRIDIUM: A LONG SLOG TO THE LAUNCHPAD

Its satellite cellular-phone scheme is still searching for investors

In June, 1990, Motorola Inc. unveiled a truly blue-sky vision: 77 communications satellites circling the globe like swarming bees, allowing travelers equipped with slim handheld phones to call anywhere on the planet. It dubbed the system Iridium, after the element with 77 electrons. Since then, the World Administrative Radio Conference has assigned a needed globe-spanning band of airwaves for use by such mobile satellite services. Motorola is now more gung ho than ever.

If only such optimism were universal. It has been two years since Iridium was announced, but Motorola has yet to name any investors who are willing to help cover the \$3.4 billion development and launch costs. Potential investors are understandably nervous about joining a project that isn't expected to turn a profit until 2002, four years after startup. And it didn't help when Motorola was denied a shortcut to an airwave license in the U.S. Onetime potential partners are now planning rival systems, and critics question

whether the technically complex system can get anywhere near the 1.8 million subscribers Motorola projects by 2002. Now, Iridium is nearing a moment of truth: It has set a Dec. 15 deadline for signing 15 to 20 investors. Its success may well determine if the satellites ever get off the ground.

The stakes are huge. Much of Motorola's prestige as a world-class telecommunications pacesetter is wrapped up in

Iridium, the biggest, most complicated venture in Motorola's 64-year history. Motorola canceled one Iridium investment offering a year ago because it didn't have an airwave slot lined up. This year, the company has spent tens of millions of dollars to promote and develop Iridium. But Motorola wants to reduce its ownership—a big risk—to just 15%, and Chairman George M.C. Fisher says Motorola will not move forward without partners.

As zero hour for raising \$1.2 billion in equity nears, several rivals insist that Schaumburg (Ill.) giant will come up empty. Says Michael D. Saffell, CFO of satellite venture Ellipsat Corp.: "The word one gets is that they have struck out, and there's nobody that will touch the project."

That may be too strong. Still, money is tight for the likeliest partners. European phone companies are investing heavily in their own deregulating markets, and other players are coping with the global recession. Motorola's fundraising effort also suffered in August when the Federal Communications Commission declined to award Iridium a partner's preference, a way to circumvent the lengthy licensing process. The FCC said the satellite proposal was not novel enough to merit special treatment.

OVERSOLD? Plenty of potential partners have turned Iridium down. "I see bet uses for our investment dollars right now," says MCI Communications Co. Chairman Bert C. Roberts Jr. Canadian satellite operator Telesat Inc. and financially troubled British Aerospace also balked at the steep investment. "We thought the level of financing they were looking for was not in line with the risks," says Kevin Smyth, a Telesat corporate development officer.

Motorola, however, says it will meet its timetable for completing the private placement. "Frankly, it will be oversold," says Vice-Chairman John F. Mitchell. He says he has both written and verbal commitments from investors in Japan, Canada, and elsewhere, although he declines to name any because the offering stipulates that all will be named at once.

One individual whose spokesman says he is considering backing Iridium is Kazuo Inamori, chairman of Kyocera Corp. and DDI Corp., Motorola's



A MOTOROLA SCIENTIST WITH A SATELLITE MODEL AND HANDHELD PHONE: UP AGAINST A DEC. 15 DEADLINE



"So, learn anything about that company?"

"I think it's in trouble."

"Shaky financials?"



No, solid numbers. And management."

"But...?"

"Technology's about to kill their market."

"Whoa!"



"In two years, they'd be better off selling leisure suits."

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ola's cellular-phone partner in Japan. Japanese newspapers have reported Inmarsi may be assembling a group of companies, including DDI and Kyocera, to take a 15% stake.

Iridium's prospects would be more secure if Motorola had not ruffled the feathers of some potential allies. It antagonized the staff of the International Maritime Satellite Organization, a consortium that provides communications to ships and planes, by claiming that the consortium was a likely partner, although it had agreed only to consider the deal. Inmarsat's owners—a group of companies from 64 countries—can decide on their own about Iridium. But the staff is clearly inclined to recommend a rival system. Motorola wanted "to force Inmarsat to go to bed with Iridium be-

THE 'BIG LEOS' FACE OFF

Here are the leading companies hoping to launch systems of large communications satellites in low earth orbit, known as 'Big LEOS':

Company	System name	Estimated cost
MOTOROLA	Iridium 66 satellites	\$3.4 billion
TRW	Odyssey 12 satellites	\$1.3 billion
LORAL/ QUALCOMM	Globalstar 48 satellites	\$830 million
CONSTELLATION	Aries 48 satellites	\$294 million
ELLIPSAT	Ellipso II 12 to 24 satellites	\$250-\$400 million

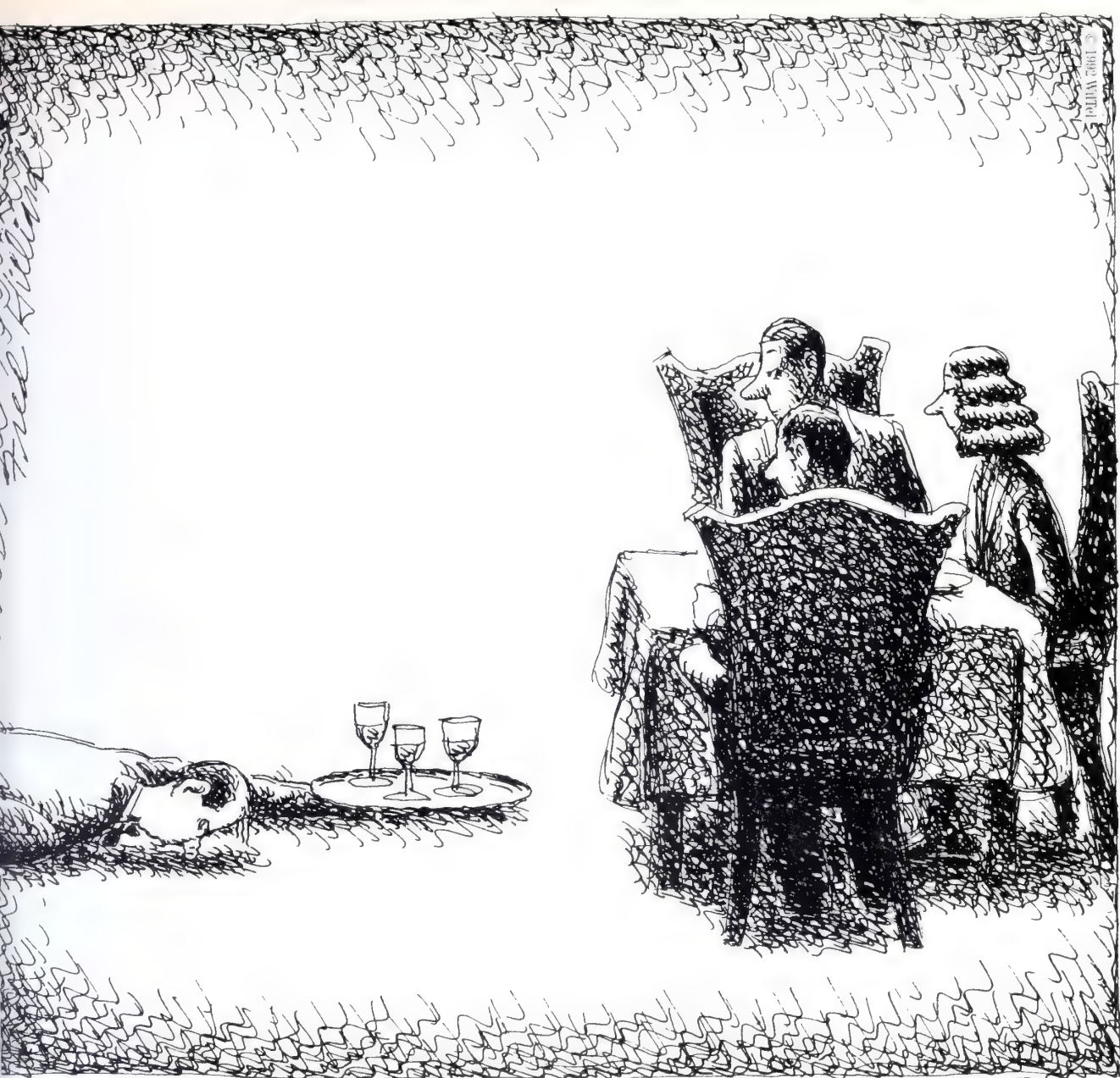
DATA BW

fore it was ready," asserts Jai Singh, general manager of a project to study Inmarsat's mobile satellite options.

Motorola didn't help itself last June when former Chairman Robert W. Galvin wrote to then-Secretary of State James A. Baker III protesting a proposed Inmarsat system. Communication Satellite Corp., the U.S. company that owns 25% of Inmarsat, fired off a letter to Vice-President Dan Quayle in response, charging that "Motorola wanted to coerce Inmarsat into an alliance."

Meanwhile, four other proponents besides Iridium have asked for FCC permission to launch so-called Big LEOS (low earth-orbiting satellites) systems (table). Inmarsat may follow suit, although some experts say there's room for more than two networks.

Securing financing would give Iridium



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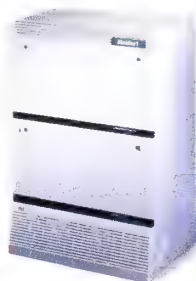
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a giant leg up in winning an FCC license to operate in the U.S. And an international team of investors would help obtain licenses in other countries.

Some critics still question whether the market for satellite-based voice, data and paging services, designed to complement existing terrestrial networks, can justify Iridium's stupendous start-up cost. Even some who agree with Motorola that satellites make sense believe that fewer birds can do the job for a fraction of the cost. Some also claim that they can beat Iridium's 1998 launch by several years. Ellipsat, for one, says its proposed 12- to 24-satellite system would charge callers just 50¢ a minute, vs. 83¢ a minute for Iridium. Mary Ann Elliott, president of consultant Arrowhead Space & Telecommunications Inc., says Iridium is "a Rolls-Royce when a Chevy would do."

REWORKING. Motorola has already scaled down its original proposal. The redesigned network now calls for 66 satellites, down from 77—prompting way to suggest renaming it Dysprosium, for the element with 66 electrons. Every satellite will send out 48 beams that can each handle about 230 calls. Rival LEOS setups plan to provide fewer beams per satellite and fewer satellites, limiting their capacity and geographic coverage.

Iridium's intersatellite links would also give it an unmatched ability to locate precisely the source of a call and complete the connection all within seconds, says Motorola, by passing calls directly from satellite to satellite. The other proposals would bounce a call from a satellite to land and, if necessary, back to another satellite.

Iridium's setup would allow it to give a cut of each call's revenue to phone companies in the countries where the call is originated and completed or where the subscriber is based. Motorola says all of the major technical issues to make this work have been resolved. But some possible investors worry about the complicated system: "There's a lot of technological risk," warns a Deutsche Bundespost Telekom source.

In the end, says Mitchell, the matter boils down to one all-important difference: Iridium will provide subscribers with units that offer high-quality sound anywhere, including indoors. The others, he says, will have to be used outside. But long before Motorola can even begin about putting its technological claims to the test, it must reel in some deep-pocketed, patient backers willing to pay for them. And the fishing season is drawing to a close.

By Jane Thornton in Sacramento, Calif., and Matt Lewan in Washington, D.C., and Robert Neff in Tokyo and bureau reporter

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FAMILIES

WHEN THE ONLY PARENT IS DADDY

Often poor, he gets little help from social agencies and companies

When Roy E. Jenkins discovered that he had cancer last February, he had to take an unpaid leave from his job as a landscaper for the Washington (D.C.) transit system to undergo radiation and chemotherapy. The city's medical plan paid those bills. But Jenkins, 35, soon ran out of money to pay his mortgage and feed his three children, ages 9, 12, and 13, whom he has reared since his divorce seven years ago.

Jenkins applied for welfare, but the agency merely told him to try to collect the child support of \$318 a month that his former wife owed him and didn't always pay. Child-support officials weren't much help, either. Jenkins, a Maryland resident, complained for months and wrote his city council representative and U.S. senator until, finally, the child-support agency got an arrest warrant for the former Mrs. Jenkins. It still hasn't been enforced, even though Jenkins had to declare personal bankruptcy to avoid foreclosure on his house before he returned to work in August. "Now I know how a lot of single mothers feel," says Jenkins. "I can understand why they're so frustrated with the system and with men not paying their child support."

Dan Quayle and Murphy Brown fo-

cused national attention on single mothers last summer, but what about their male counterparts? Since 1980, the number of single fathers has doubled, to nearly 1.4 million (chart). While that's still a fraction of the country's 8.7 million single moms, the ranks of single dads have grown at 6% a year in the past decade—double the rate for single mothers. Today, fathers head nearly 14% of all single-parent households.

IGNORED. Yet they seem to be all but invisible. Academics and policy experts know little about these men and their children and what their problems might be. Ditto for most companies, whose work/family efforts are geared mainly to women, and for government programs such as welfare and child support—despite evidence that many families headed by single fathers are poverty-stricken and need help. "Single fathers are an aspect of diversity in the work force that no one is paying attention to," says James A. Levine,

head of the Fatherhood Project, a New York group that studies the involvement of men in child-rearing. As awareness of the issue spreads, it's likely to affect everything from government programs to corporate benefit plans.

A variety of social and economic change has been propelling the increase in single fatherhood. For much of this century, divorce courts assumed that young children needed their mother for proper psychological development. The theory gave way

in the 1970s to one that says judges should do what's in the child's best interest, which can mean giving children to the parent who will provide the best care. The courts also have given unwed fathers, whose numbers have jumped from 68,000 in 1980 to 380,000 today, more rights to be involved in their kids' lives.

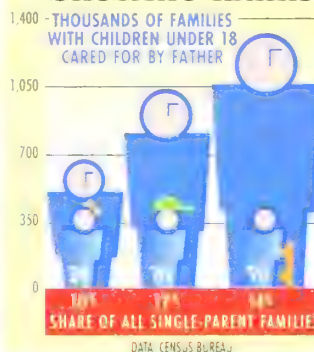
These trends have made it easier for fathers to gain custody of their children—though mothers remain far more likely to ask for custody and win a legal battle. "I don't think men have an equal shot at gaining custody today, but we're moving rapidly toward equality of opportunity," says Marshall J. Wolf, a Cleveland lawyer who heads the American Bar Assn.'s Family Law Section.

The women's movement has played a role as well. As women pushed fathers to take a larger role in parenting, it became more acceptable for dad to care for kids. Witness *Kramer*, the 1979 movie starring Dustin Hoffman as a dad who wants custody of his child. And, as more women worked outside the home, they gained another source of identity in addition to child

rearing. "We need to lose the societal stereotype that there's something wrong with a mother if she doesn't have her children," says Jennifer Isham, the president of Mothers Without Custody, a national support group for women who aren't raising their kids.

Joseph Pipher is one father who has discarded the stere-

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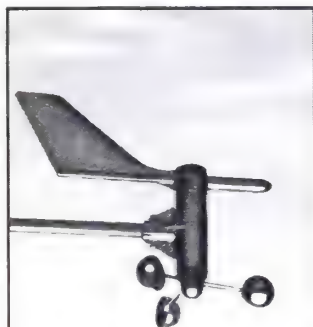


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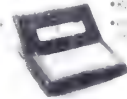


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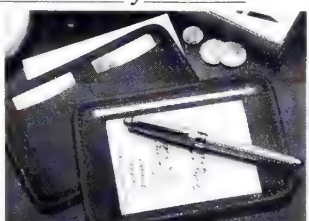
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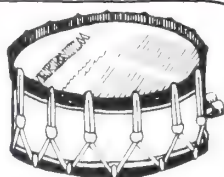
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Social Issues

types. The filmmaker, 43, has cared for Danielle, now 10, since he and his wife divorced nearly six years ago. Pipher, who lives in Old Greenwich, Conn., didn't want to give up his daughter. His wife, also a filmmaker, eventually consented. She lives nearby and usually takes Danielle for part of the weekend. "She has participated in the child-rearing in a flip-flop of the traditional way," says Pipher.

FOR WOMEN ONLY? Many single fathers have a difficult time making ends meet. Although the average annual income of single fathers is about \$24,000, vs. \$13,000 for single moms, one-third of them earn less than \$10,000, according to a new study by Daniel R. Meyer, a professor of social work at the University of Wisconsin. What's more, government programs such as welfare don't seem to serve needy single fathers well. There are 3.6 million single mothers below the poverty line, almost exactly the number on welfare, according to Meyer. Yet only 111,000 single fathers receive welfare, even though twice that number are in poverty. No one knows why. But welfare was designed for women and children," says Richard Ferreira, a policy analyst at the American Public Welfare Assn., a coalition of state welfare agencies. "Single fathers are an issue that just doesn't come up."

The child-support system doesn't seem to work well for men, either. Courts often ask noncustodial mothers to pay less than noncustodial fathers because women tend to earn less than men. However, Meyer's study of Wisconsin court records found that nearly half of custodial fathers who had won a court order received nothing, compared with 29% of mothers. The reasons for this are not clear.

Other studies suggest that some men may be struggling to get by. A 1991 survey in Colorado found that 58% of custodial fathers who didn't get a court order for child support said they needed the money, compared with 20% of single mothers. "In the past, women without custody escaped child support altogether," says Jessica Pearson, director of the Center for Policy Research, a Denver-based group that conducted the Colorado study. "That's less true now, but there's still a differential based on gender."

In recent years, hundreds of men's rights groups have sprung up to offer legal and emotional support to divorcing men. And some companies are trying to gear work/family programs to men as well as women. Overall, single mothers remain a larger issue. But as the ranks of single dads grow, their problems may require a similar urgency.

By Aaron Bernstein in New York

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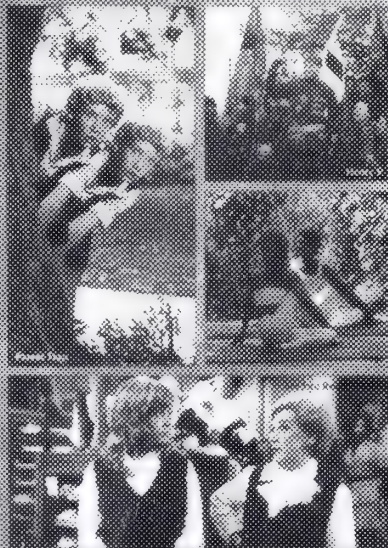
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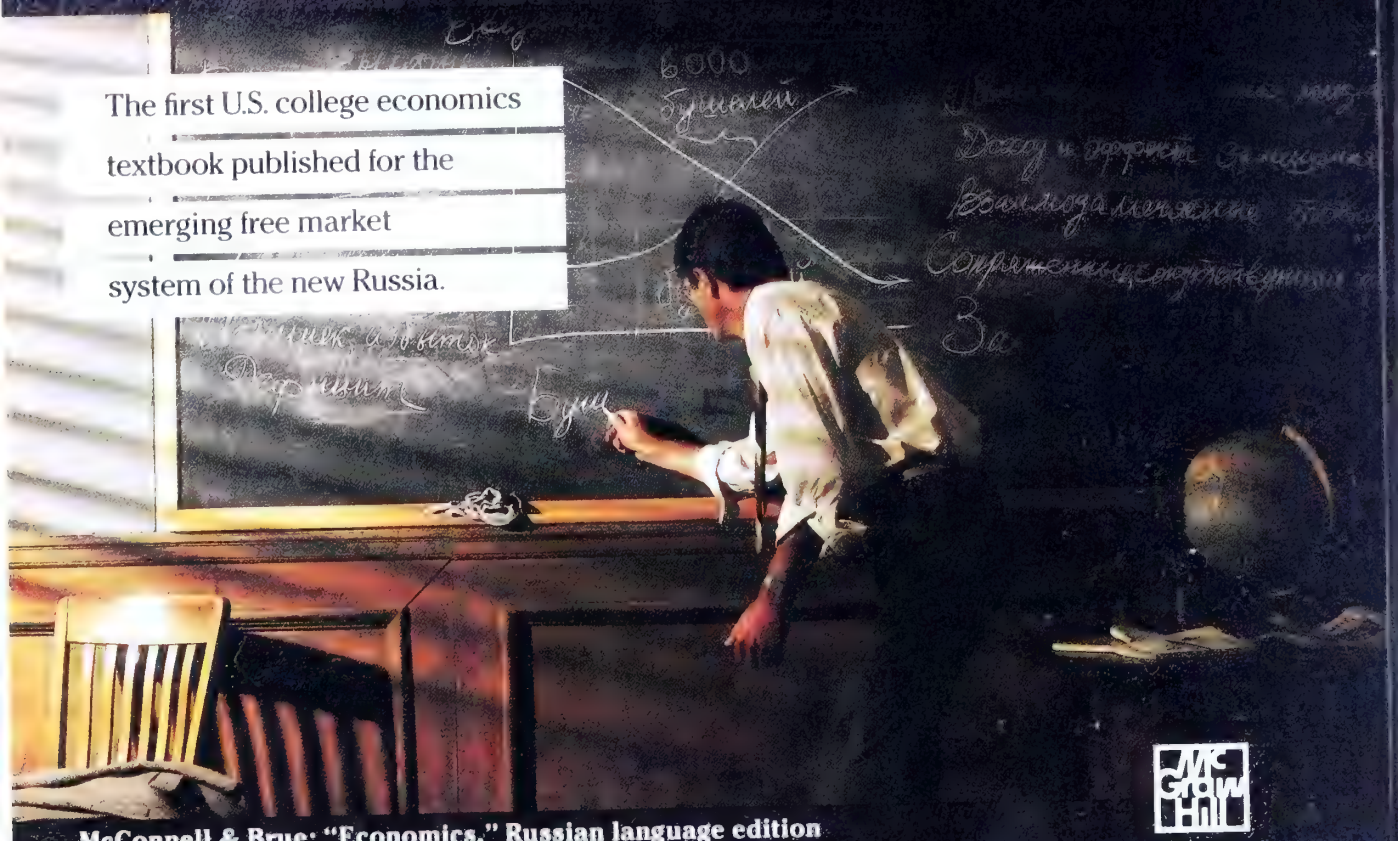
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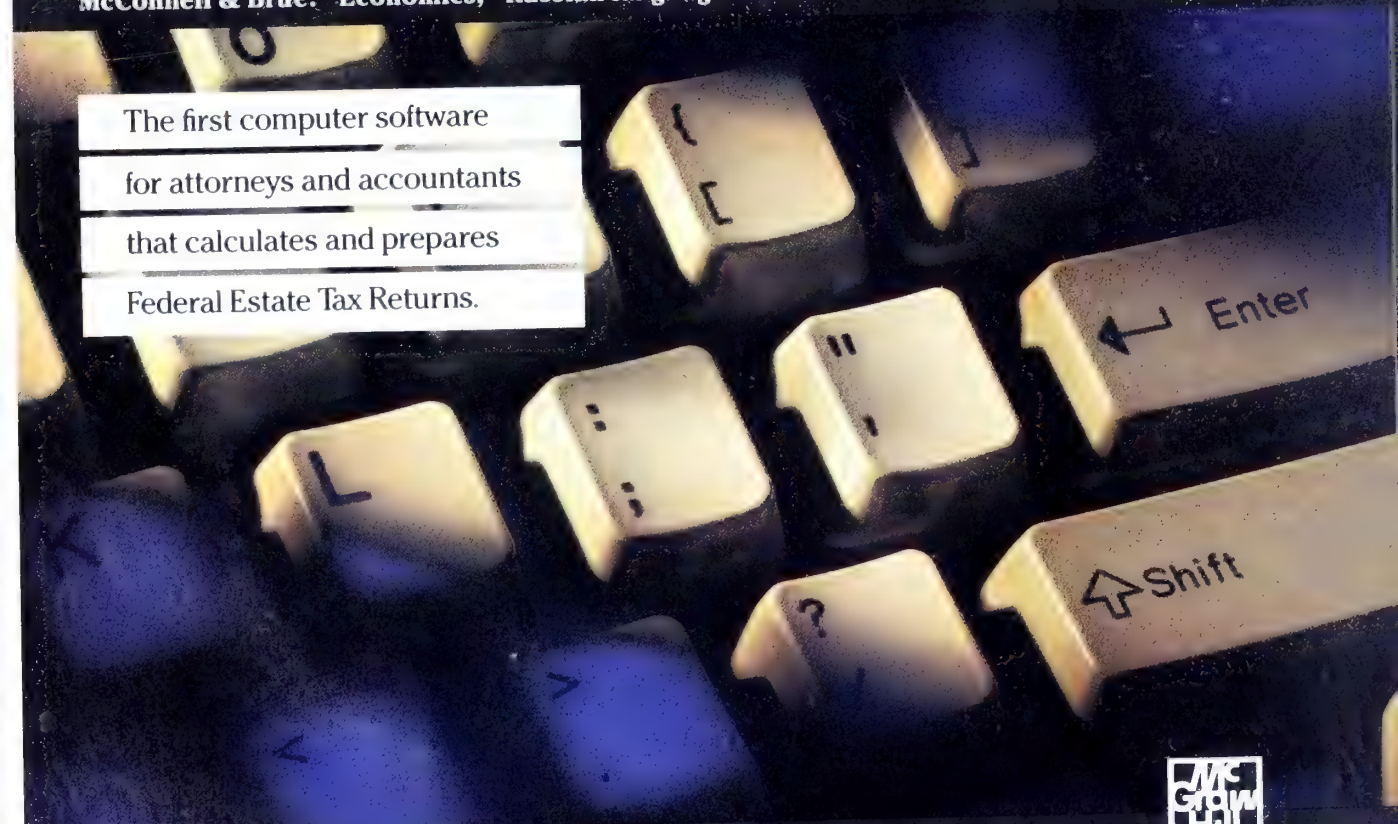
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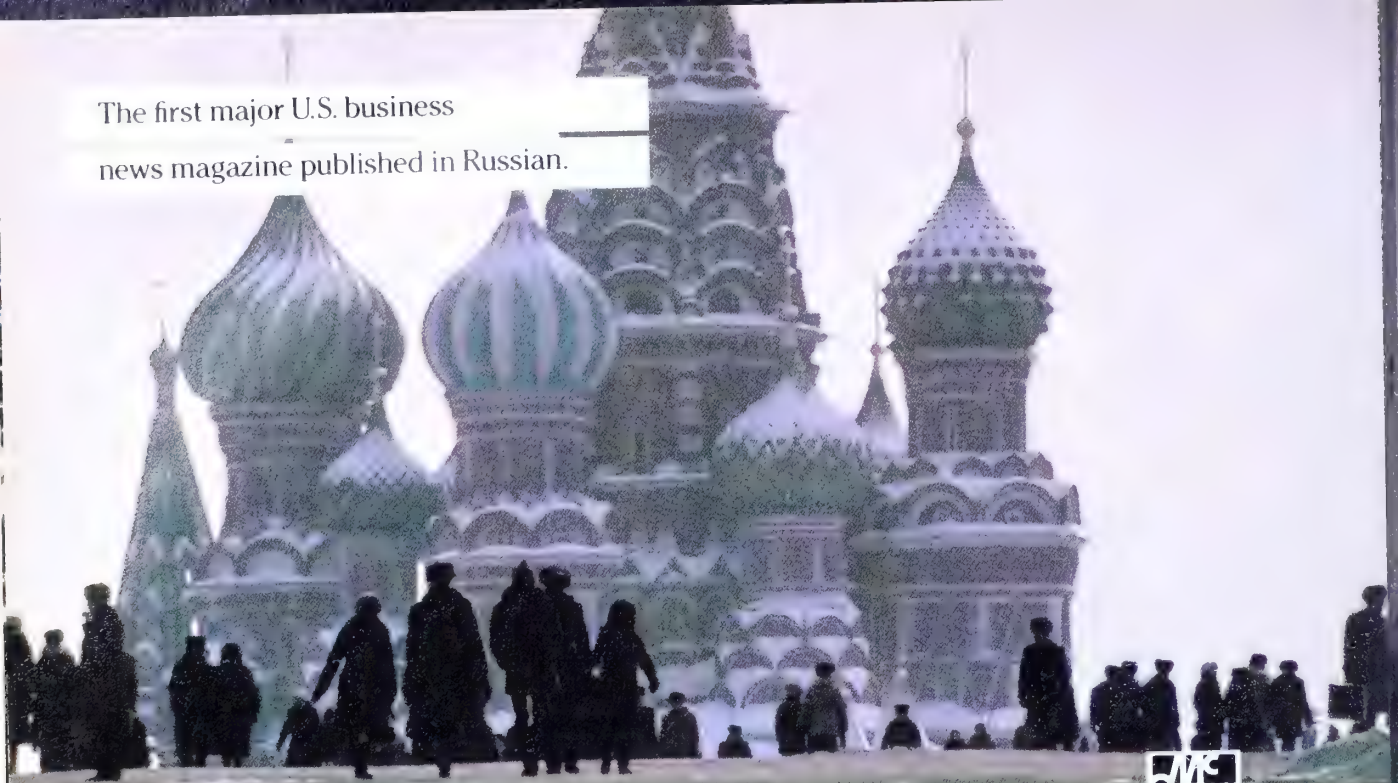
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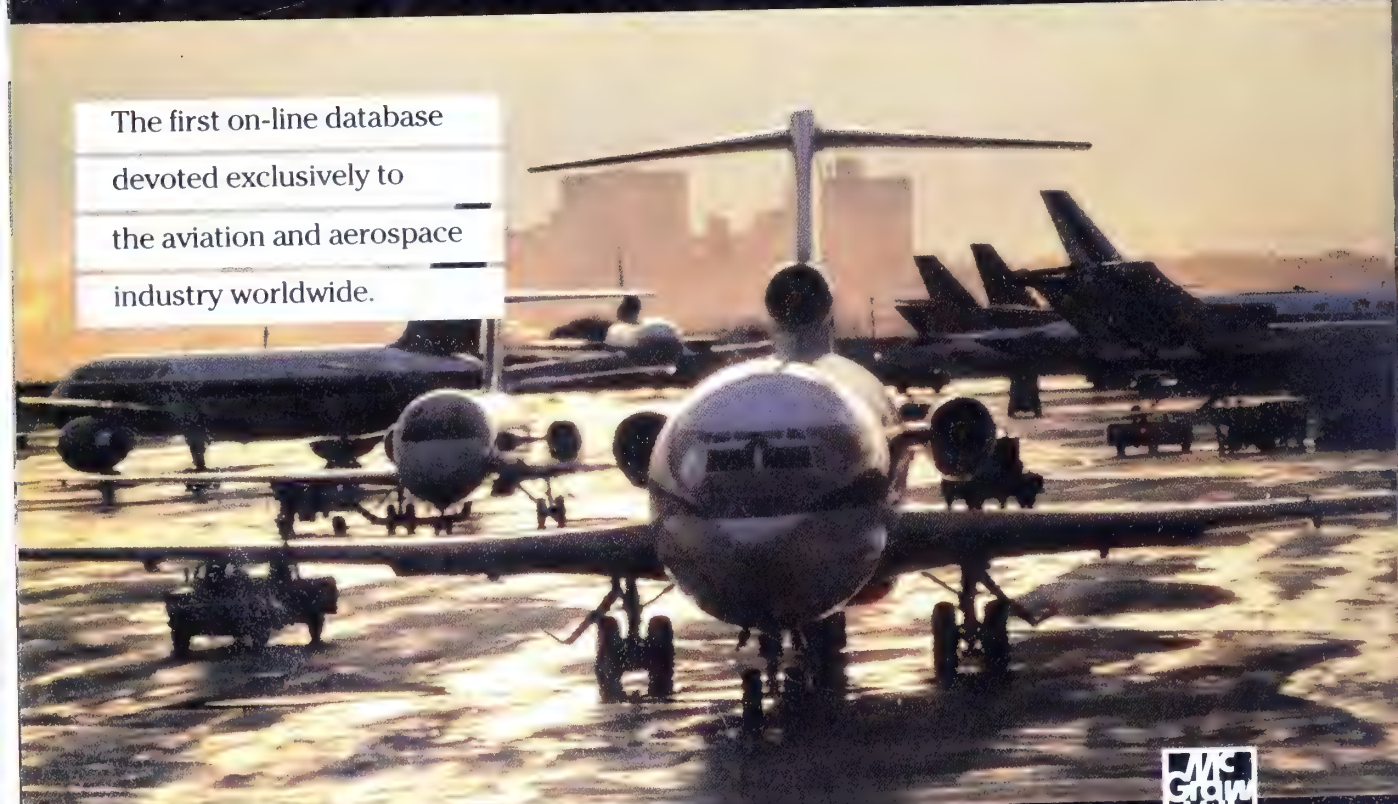
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EDITED BY AMY DUNKIN

Giving

THE BIGGEST TAX BANG FOR YOUR CHARITY BUCK

You know the winter holidays are nigh when your mailbox bulges with charity appeals. Many people respond, hoping to do some yearend tax-cutting while they throw a few bucks at their favorite causes. Before generosity overcomes you, it pays to understand when the tax code rewards charity—and when it does not.

It doesn't necessarily follow that the more you give away, the more you save on taxes. Charitable donations, like other itemized deductions, are subject to limits. Some kinds of contributions are full-

ly deductible, others only partially, and still others not at all. Similarly, how much you can give depends on the kind of charity you're funding.

PERSONAL GOALS. The Internal Revenue Service divides charitable organizations into two groups under its Section 501(c)(3). Most charities that depend mainly on the public for support, such as the World Wildlife Fund or United Way, are called 50%-type organizations because you may give them—and deduct—up to 50% of your adjusted gross income in any tax year. To charities with a smaller

support base, such as private and community foundations, you can donate up to 30%.

Other rules, too, vary according to what kind of charity receives your munificence and the nature of your donation. For example, money given to individuals is never tax-deductible. Neither is the value of services rendered to the needy, even if those services are lifesaving. Most charities tell you their tax status up front. If you get a pitch from a charity that doesn't, check with the IRS or the Philanthropic Advisory Service of the Council of

Better Business Bureaus (702-276-0100).

Your first instinct in trying to combine altruism with money management might be to work backward from your tax goals. But experts say that's a mistake. "I advise clients to focus on their personal goals," says Ross Nager, director of Arthur Andersen Family Wealth Planning Practice. "It's almost impossible to make money by giving away to charity." Nager encourages people to look at the pattern of their donation, consider other objectives such as estate planning, and the

work out the most tax-advantageous strategy for carrying them out.

You can use charity to save income taxes, capital-gains taxes, and gift or estate taxes. In the first case, planning consists mainly of timing donations to maximize their tax benefit. If you think President-elect Clinton will raise rates, for example, you may want to postpone some of your 1992 giving until after New Year's. A \$1,000 donation costs you \$690 aftertax if your bracket is 31%, but only \$640 if that rate hits 30%. "Probably taxpayers with incomes over \$200,000 should be concerned" about timing, says Jeff Keyser, tax partner at Deloitte & Touche in Cincinnati.

You should, of course, document all deductions in case of an audit. Check clubs will do for a simple cash gift, but donations that buy you a privilege or reward require some care: If you pay \$200 to attend an animal-rights benefit gala, the IRS will assume you had \$200 worth of fun. The agency won't allow a deduction unless the organization provides a receipt showing just how much of that amount helped animals. **APPRAISALS.** Noncash gifts that are difficult

to value, unlike publicly traded securities, require special treatment. If you give more than \$500 worth of used clothing or furniture to Goodwill Industries or your local thrift shop, you must file Form 8833, on which you explain to the IRS how you valued the donation. For noncash gifts exceeding \$5,000, such as artwork or private-company stock, you must supply a formal appraisal. "It's the taxpayer's responsibility to get a determination of value," says Keyser.

Many tax advisers recommend giving away appreciated property instead of cash when possible. The beauty of this approach is that you realize it only a current deduction

Give appreciated stock rather than its cash value

but a capital-gains tax savings. Say you had \$10,000 worth of stock for which you paid \$1,000. If you sold the stock and gave your profit to charity, you could take a \$10,000 current deduction and save \$3,100 in taxes, but you'd owe \$2,520 in capital-gains taxes (28% of \$9,000), so the gift would cost you \$9,420. If instead you donated the stock, you'd take the same current deduction but pay no capital-gains tax, and the gift would cost only \$6,900. The strategy can apply to baseball cards,

ciated building on which you have taken depreciation. If you sold the building, only part of your profits would be capital gains. The rest would be recaptured depreciation, which is treated as ordinary income. So if you give the building to charity, you may deduct only the part of its market value that derives from capital gains. In fact, the IRS scrutinizes any donated property that normally generates income. A clockmaker who gives clocks to an orphanage may not deduct their market value, only what they cost to make.

Whether you donate cash, old clothes, or depreciated property, they are present gifts that yield immediate benefits to the recipient and the donor alike. Another way

trust. During that term, you receive an annuity, which may either be fixed at the outset (at no less than 5% of trust assets) or indexed annually to the trust's income. When the term expires, the recipient gets all the remaining principal plus any accrued income.

'EVERYONE WINS.' Putting appreciated stock in a charitable-remainder trust may be the smartest move of all. The trust pays no income or capital-gains taxes. So it has more to invest than if you had sold the stock and invested the proceeds. The trust can then sell the stock tax-free, diversify, and throw off maximum income. Furthermore, your taxable estate is reduced by the trust amount. "You end up doing very well for yourself, your family, and the charity," remarks Joel Isaacson, director of financial planning at Clarfeld & Co. "Everyone wins except the government." The only drawback to such a setup is that when the trust terminates, the remainder goes to charity rather than to any heirs.

Some insurers recommend charitable-remainder trusts, but they usually have an ulterior motive: selling you a life-insurance policy to replace the money you cut from your kids' inheritance. "You have to think through the ramifications," says Arthur Andersen's Nager. "You tie up the capital in trust, the charity gets it, insurance isn't free, and you don't have as much control over investments."

Whether you're considering a sophisticated device such as a trust or just wondering how much to give the Boy Scouts this year, figure out your motivations first. Charity and tax-saving don't necessarily dovetail. "If your sole goal is to reduce income tax," says Nager, "you're probably better off buying municipal bonds." But then you would miss out on that warm, fuzzy feeling the holidays are supposed to bring. *Joan Warner*

'TIS BETTER TO GIVE THAN TO PAY TAXES

Type of contribution	Amount deductible	% of AGI you can give public charities and deduct	% of AGI you can give private foundations and deduct
CASH	FACE VALUE	50%	30%
GOODS THAT GENERATE ORDINARY INCOME	COST	50	30
SHORT-TERM CAPITAL GAIN PROPERTY	COST	50	30
LONG-TERM CAPITAL GAIN PROPERTY	MARKET VALUE	30	20*

*All-scheduled gross income

*The contribution to certain kinds of private foundations, only cost is deductible. SOURCE: IRB 1992-41, 42

antiques, real estate—anything that's worth more than you paid for it.

Some complications ensue, however, when you give appreciated property. For one thing, the limits on how much you can donate a year are lower: 30% of AGI to public charities and 20% to private ones. Second, if you are subject to the alternative minimum tax, you may deduct only the property's cost, not its market value. That doesn't make for much of a tax savings. "Since more and more people are becoming subject to AMT, this could be a trap," says Nager.

Another wrinkle arises when you donate real estate. Say you give away an appre-

ciated building on which you have taken depreciation. If you sold the building, only part of your profits would be capital gains. The rest would be recaptured depreciation, which is treated as ordinary income. So if you give the building to charity, you may deduct only the part of its market value that derives from capital gains. In fact, the IRS scrutinizes any donated property that normally generates income. A clockmaker who gives clocks to an orphanage may not deduct their market value, only what they cost to make.

Whether you donate cash, old clothes, or depreciated property, they are present gifts that yield immediate benefits to the recipient and the donor alike. Another way

Benefits

COORDINATING FAMILY HEALTH COVERAGE

Sometime between now and Dec. 31, millions of working people will have to pick their health-insurance benefits for next year. The decision is hard enough, given all the options: from conventional major medical plans to preferred-provider networks. But it's even more complicated for couples who have to coordinate coverage. Should you each enroll for individual coverage from your respective employers? Should one spouse take a family plan? Should you both sign up for the family option to buy extra protection?

One change many companies are making may help you answer at least one of these questions. In the past, most plans offered coordination of benefits (COB), meaning the secondary plan for each family member would pick up ex-

penses the primary one didn't cover. (The plan of the parent whose birthday comes first in the year usually provides the primary coverage for the children.) With dual benefits, it may be possible to get 100% coverage. For example, if your company's plan paid 80% of a \$100 medical bill, you could receive reimbursement for the \$20 balance from your spouse's plan.

CARVED OUT. But a growing number of employers are replacing COB provisions with nonduplication policies. That means you may no longer be eligible for additional payments from your spouse's plan. Since employees usually must contribute extra for family coverage, two plans may no longer make sense. "You have to decide whether the additional protection you'd get from enrolling in both plans is worth the extra cost," says Gary Thompson, a Foster Higgins benefits consultant.

Whether you qualify for COB or not, Thompson suggests you do a quick analysis of the basics of each plan. The idea is to compare out-of-pocket costs under each if your

WHOSE PLAN COSTS LESS?

When comparing health plans, it's not enough just to consider premiums, deductibles, and extent of coverage. You must also figure how much you'd lay out if you were hit with different levels of medical bills.

	YOUR PLAN	SPOUSE'S PLAN
Family deductible	\$600	\$300
Plan pays 80% until you spend this, 100% thereafter	4,000	2,000
Annual premium	300	700
MEDICAL BILLS	OUT-OF-POCKET COSTS*	
\$1,000	\$980	\$1,140
\$8,000	2,540	2,700
\$9,600	2,700	2,700
\$17,600 and up	4,300	2,700

DATA: A. FOSTER HIGGINS & CO. *INCLUDING PREMIUM

family has various levels of medical expenses. First consider deductibles—the amount you have to lay out before the plan covers a portion of the bills, usually 60% to 80%. Then, look at the maximum each plan requires you to spend before it picks up 100%.

Now, you're set to see how the plans stack up. Make estimates—based on age, health, and medical history—of whether you think one per-

son's 1993 medical bills will run a few hundred dollars, a few thousand, or more. If you see that one plan results in significant out-of-pocket savings, you can weigh potential savings against the annual premium cost of each plan. If one spouse's plan offers a substantial advantage when you take all these factors into account, your best bet might be to enroll your entire family on just that one. *Don Du*

Smart Money

SAVINGS BONDS DON'T LOOK SO STODGY

For the risk-averse, savings bonds are a worthy alternative to equities. By guaranteeing, after five years, to pay the greater of 6% or a variable rate pegged

to 85% of the yield of Treasury securities maturing in five years, they provide some protection from inflation. And the 6% minimum will be useful if interest rates stay down. "The 6% rate sounds low relative to the returns of stocks and bonds over the past 10 years," says Hutch Vernon, a money manager at T. Rowe Price Associates. "But compared to what you're likely to get over the next 10 years, it's pretty good."

CUT THE CAPS. It'll be even better if Congress or the new Clinton Administration extends to all taxpayers the federal income tax exemption

for savings bonds used to finance educational expenses. Currently, only married couples with adjusted gross income of under \$66,200 qualify. The exemption is phased out proportionally for couples with AGIs up to \$96,200 and is unavailable above that amount. (Savings bonds are exempt from state and local taxes; the federal taxes are paid only when the bonds are redeemed.) On Nov. 4, President Bush vetoed a bill that would have eliminated the income limits.

If limits for the tax exemption are overturned, savings bonds would be an irresistible way to sock away money for college. Even if the income limits remain, the kids opt for beachcombing instead of school—the riskless, tax-deferred yield of savings bonds makes them a worthy addition to any portfolio. *Gary Wei*

SAVING FOR YOUR FUTURE SCHOLAR

College begins	Projected cost*	Monthly investment**
2000	\$129,893	\$1,052
2004	170,263	806
2008	223,180	692
2012	292,544	630

*Four-year private college, including tuition, housing, expenses
**Based on 6% compounded annual return

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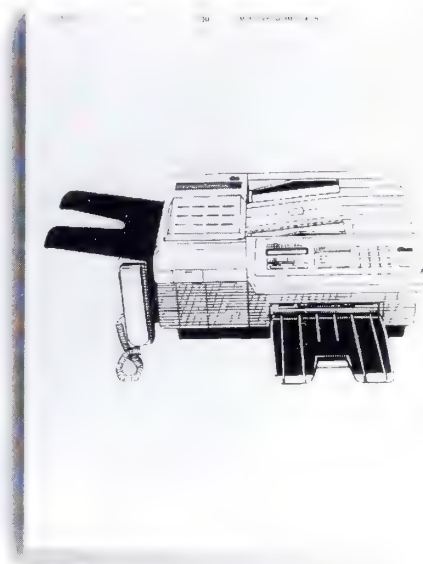
When parents wrestle with that most vexing of investment challenges—financing their children's education—they increasingly turn to that most prosaic of investments, Series EE U.S. savings bonds. Recently, buyers have been lured in record numbers by a guaranteed rate of 6%—as well as, for many, a tax exemption.

But are bonds the crack-jack college-saving vehicle they're cracked up to be? That depends on your risk tolerance, the age of your child—and, not least, the vagaries of Congress. Keep in mind that investment pros maintain you get the best returns over the long term not from bonds, but from a diversified portfolio of stocks or mutual funds. But many people don't have the discipline to stay with stocks during times of market volatility.

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Collecting

YESTERDAY'S POSTERS, TODAY'S ART

Imagine coming home from work to the frozen flutter of Bette Davis' eyes or King Kong climbing the walls of your living room. These images and more exotic ones can be yours when you collect vintage posters.

Posters of all eras, styles, and themes have become popular collectibles over the past few years. One reason is that nostalgia sells. An old poster advertisement can bring



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pangs for a brand that has gone the way of youth. Or the sleek lines of a cruise ship ad can carry one back to a honeymoon long past.

Vintage posters are also works of art in their own right. Their vivid colors and bold graphics can enliven a room at a fraction of the cost of a painting. While the crème de la crème can run upwards of \$200,000, exemplary pieces range from several hundred to several thousand. And posters are holding their value well. "The art market is in a depression, yet

posters are very stable," says Hélène Petrović, head of 20th century decorative arts at Christie's East.

Typically, posters produced before World War II are the most valuable. Until photographic offset printing became widespread in the 1930s and '40s, artists painstakingly drew images onto zinc or limestone, a process known as lithography. Jules Chéret, a French artist, is recognized for perfecting color lithography in the late 1800s. The works of Chéret and his compatriots such as Henri Toulouse-Lautrec, Alphonse Mucha, and art deco master A.M. Cassandre fetch some of the highest prices today. For example, Mucha's Monaco travel poster sold for \$11,000 at a recent auction.

GRATEFUL DEAD. In addition to the artist, condition and scarcity play a part in poster valuation. A poster that has fresh colors and no tears is, of course, worth more than one that is stained or has been restored. Although it's hard to tell how many copies of a poster were originally made, or how many still exist, "we do know that there isn't a large quantity of any type of poster printed before the 1960s, simply because print runs were smaller back then," says George Theofiles, who owns Miscellaneous Man, a poster mail-order business in New Freedom, Pa.



CYCLES GLADIATOR POSTER, A POPULAR EARLY BICYCLE AD BY AN ANONYMOUS ARTIST, WENT FOR \$9,000

MONACO-MONTE-CARLO



ALPHONSE MUCHA'S MONACO TRAVEL POSTER SOLD FOR \$11,000 AT A RECENT AUCTION

Subject matter and genre, too, are important in determining a poster's worth. As popular tastes change, collectors begin to focus on a particular category, driving prices up. Rock 'n' roll posters done in San Francisco in the 1960s—announcing Grateful Dead concerts, for example—are selling smartly now for as much as \$2,000 each. "It's probably because baby boomers are approaching middle age and thinking back on the wild days of their youth," says Theofiles.

Movie posters are also hot. Their prices are driven by the popularity of a film or the featured stars. Movie posters "have little relation to graphic interest, and typically there is no artist," says Jack Rennert, president of Poster Auctions International. A recent auction at Christie's garnered \$57,200 for a rare King Kong poster. Other categories that seem to be perennial favorites are war posters, art deco and circus posters, and transportation posters of the 1890s to 1940s. Of

the latter, a Cycles Gladiator poster, a popular early transportation work, sold for \$9,000.

To start collecting, pick a subject that interests you, then study the posters on that topic. A good beginner's book is Tony Fusco's *Poster Collecting* (House of Collectible, \$12.95). You'll also want to haunt auctioneer Christie's next movie poster auction will take place in New York in December; Sotheby's will stage one next September in New York. Poster Auctions International will sell a broad range of posters in New York in May.

When it's time to buy, you may get better prices from shows, dealers, or the mail-order market than at auction.

Miscellaneous Man (717 234-7666) advertises a wide variety of vintage posters from \$75 to \$10,000. A good way to learn about shows—known as paper fairs—and dealers is through *Paper Collectors' Marketplace* (715 467-2379).

Be aware that some shops sell reproductions alongside authentic old posters—and don't always make the distinction clear. To be absolutely certain about what you're buying, go to a reputable dealer or gallery—and ask lots of questions. *Laurel Toussaint*

Worth Noting

■ **DEFENSE STRATEGY.** *The Defense Professional's Survival Guide for the 1990s* offers advice on getting through layoffs and finding new jobs. The \$2.95 pamphlet is from the National Center for Career Change (800 755-2411).

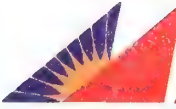
■ **PERSONAL PROBLEMS.** If you're involved in a car accident or medical malpractice suit, you might want to consult *The Jacoby & Meyers Practical Guide to Personal Injury* (Simon & Schuster, \$11.00). The 240-page book explains how to evaluate and handle different types of personal-injury actions.

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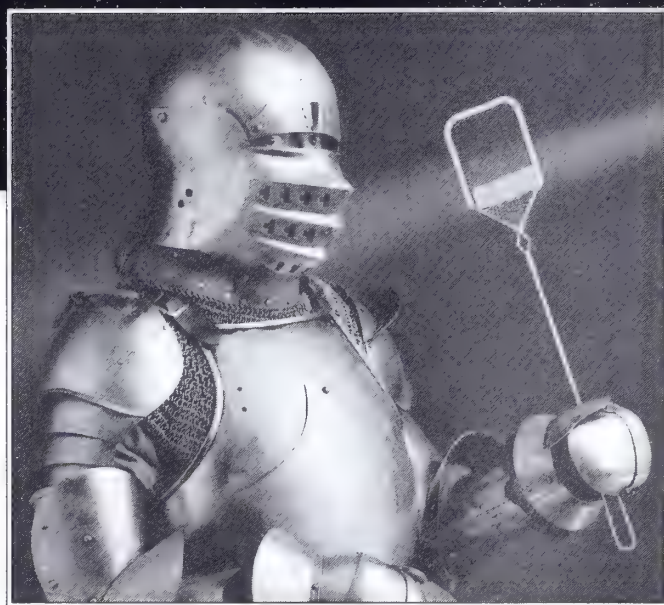
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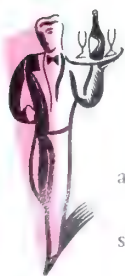
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networking
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Ralph Ungerhmann
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Buy a networking *partner* instead.  Every week

somebody introduces a hot new networking product.

But the IT managers I talk with say that what's

really important is not the latest box, but leveraging

their investment for increased productivity and

competitive advantage. Businesses everywhere are

under enormous pressure to compete more effec-

tively in the global marketplace. Open enterprise

networks can be of great value in meeting these

goals.  It's no wonder that IT executives have

become a lot more interested in finding a network

partner than in buying the latest hot products. The

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systems, teaching people how to leverage technology

for productivity gains and bringing new business

applications on line — ahead of the competition.

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migration path to future requirements.  If you

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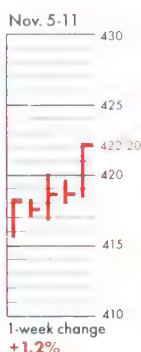
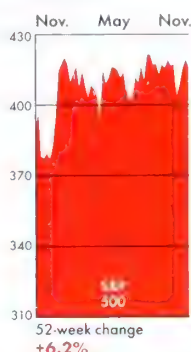
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Investment Figures of the Week

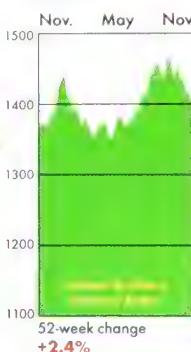
COMMENTARY

Black Monday week in the U.S. financial markets. With the victory of President-elect Clinton long assured by traders, the aftermath of the elections was largely one of inactivity. The Dow Jones industrial average fell 15 points on Nov. 9, because of fears of economic weakness, but stocks recovered the following day. Overseas markets, meanwhile, were considerably more volatile. In Tokyo, stocks fell 2.7% on Nov. 9, as a political scandal threatened to derail an economic rescue plan.

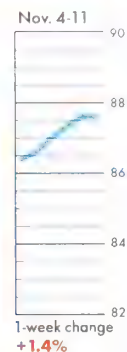
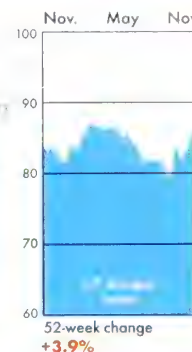
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3240.3	0.5	5.7
500 COMPANIES (Russell 1000)	225.5	1.6	7.5
2000 COMPANIES (Russell 2000)	206.9	3.7	10.0
3000 COMPANIES (Russell 3000)	240.6	1.8	7.7

FOREIGN STOCKS

	Latest	% change Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	2696.8	0.2	5.9
DOW JONES (NIKKEI INDEX)	16,318.2	-4.4	-33.2
DOW JONES (TSE COMPOSITE)	3286.4	-1.7	-8.6

INDUSTRY GROUPS

4-WEEK LEADERS

	4-week	52-week
MACHINE TOOLS	27.1	83.4
STEEL	25.0	15.5
COMMUNICATIONS EQUIPMENT	23.3	-1.5
TRUCKING	18.1	16.0
BROKERAGE FIRMS	17.6	-2.9

4-WEEK LAGGARDS

	4-week	52-week
GOLD MINING	-10.9	-11.1
OIL EXPLORATION AND PRODUCTION	-9.3	-28.5
COMPUTER SYSTEMS	-6.4	-25.8
REGIONAL TELEPHONE COMPANIES	-6.3	-0.8
OIL WELL EQUIPMENT AND SERVICES	-6.0	-5.9

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.14%	3.08%	4.77%
30-YEAR TREASURY BOND YIELD	7.67%	7.69%	7.87%
S&P 500 DIVIDEND YIELD	2.96%	2.95%	3.10%
S&P 500 PRICE/EARNINGS RATIO	22.8	22.4	22.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	414.6	414.5	Positive
Stocks above 26-week moving average	47.2%	47.2%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.40	Neutral
Insider sentiment: Vickers sell/buy ratio	2.00	1.73	Positive

BRIDGE INFORMATION SYSTEMS INC.

MUTUAL FUNDS

LEADERS

	4-week total return	%
ELMSMAN INTERNATIONAL EQUITY	22.3	
PA CAPITAL	16.7	
J. AMERICA GROWTH	15.1	

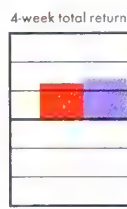
	52-week total return	%
DELITY SELECT SAVINGS & LOAN	54.4	
ORGAN STANLEY ASIAN EQUITY	44.1	
AKMARK	42.0	

LAGGARDS

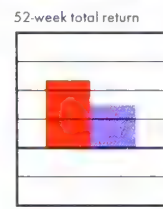
	4-week total return	%
UNITED SERVICES GOLD SHARES	-11.0	
LEXINGTON STRATEGIC INVESTMENTS	-8.1	
MONITREND GOLD	-7.3	

	52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-59.9	
UNITED SERVICES GOLD SHARES	-51.8	
CAPSTONE NIKKO JAPAN	-33.3	

S&P 500



Average fund



MORNINGSTAR INC.

RELATIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in each portfolio.

Percentages indicate 1-year total returns.

Treasury bonds
\$11,176
-0.26%

U.S. stocks
\$10,869
-0.31%

Money market fund
\$10,309
+0.05%

Foreign stocks
\$9,349
-2.32%

Gold
\$9,276
-2.39%

DATA RESOURCES INC.

Data on this page are as of market close Wednesday, Nov. 11, 1992, unless otherwise indicated. Groupings include S&P 500 companies only; performance and share prices are as of market close.

Nov. 10. Mutual fund returns are as of Nov. 6. Relative portfolios are valued as of Nov. 10. A more detailed explanation of this page is available on request.

REWIRING THE COMPUTER BUSINESS

Like a force of nature, the advancing technology in microprocessors has reshaped the landscape of the computer industry. Slowly at first, but now with alarming speed, ever-cheaper computing power has eroded the economic foundations of the industry. Vertically integrated plants and massive research facilities that once were assets have turned into liabilities, and such giants as IBM, DEC, and Unisys have been forced into painful cutbacks.

Deconstruction—breaking down the old organizations into leaner, more competitive units—is now under way in the computer industry (page 90). In terms of sheer efficiency, deconstruction makes a lot of sense. After some wrenching adjustments, it could make the U.S. industry more competitive. As various deconstructed product groups and marketing divisions are exposed to the forces of the market, their strengths and weaknesses will stand out in sharp relief.

For example, IBM should wind up with better drives for its computers and a badly needed source of new revenues by permitting its Adstar disk-drive unit to seek customers outside Big Blue and by forcing it to compete for business within the parent company. Unisys, after drastic cutbacks, has found that it cannot add much value in such areas as building PCs. Instead, it can profit by focusing on selling information systems to customers in a few industries it knows best. And Digital Equipment Corp. figures it can do the same by encouraging its disk-drive operation to spread out and find new customers outside the mother ship.

So deconstruction offers exhilarating prospects for beleaguered computer makers. Industry executives, however, will be challenged as never before as they carry out their deconstruction plans. With investors breathing down their necks, CEOs may not give their newly independent units enough time to get their bearings. At the first signs of trouble, the temptation to pull the plug and cut losses will be enormous. Certainly, when exposed to the harsh environment of the market, some parts of the business will wither. But computer executives must be sure to hold on to their most distinctive assets: the people, the technology, and the vision that make their products valuable. Otherwise, deconstruction will be just plain destruction.

ECONOMIC POLICY: OFF ON THE RIGHT FOOT

President-elect Bill Clinton is surely right to make economic policy the top priority of his incoming Administration. He knows that's what he was elected to do, as he confirmed when he told reporters that the troubling signs in the economy were "what the election was about."

His notion of convening a group of economists and business and labor leaders for several days in December to bat around ideas on the economy—and what ails it—makes more sense

for the message it sends than for whatever content it may yield (page 32). What counts is the focus on the economy.

Clinton's wish for an Economic Security Council, to parallel the coordinating and advisory functions of the National Security Council, is far more substantive. The need for such a council has long been evident. BUSINESS WEEK has advocated a body to complement the Council of Economic Advisers, set up after World War II as a group of independent experts with no operating responsibilities, to advise the President. But the CEA's influence has waxed and waned according to the strength of the chairman—and it has often been relegated to the sidelines.

What is needed is a system for coordinating policy among the major agencies that deal with economic affairs. As we said in our final issue of 1960, as John F. Kennedy was preparing for his inauguration: "We recommend again that the Administration and the Congress set up a National Economic Council. Made up of the Secretary of the Treasury, the chairman of the Federal Reserve Board, and the chairman of the Council of Economic Advisers, with other top-ranking officials dealing with economic questions, it would have the basic responsibility for determining economic policy." Add the task of coordination, and that's still our idea of what such a council should do.

BREAKING THE DEADLOCK IN THE TRADE SQUABBLE

President George Bush definitely got the European Community's attention with his move to impose a new duty of 200% on French wines and other imports starting on Dec. 5 (page 34). The EC quickly agreed to a new meeting with U.S. trade officials to try to settle the dispute over EC farm subsidies, which displace U.S. soybean exports to the European market.

That's the immediate problem, but a far larger issue is whether the EC will make broader concessions on its highly protectionist farm policy. That might break the deadlock in negotiations to liberalize trade in merchandise and services among 108 nations in the General Agreement on Tariffs and Trade. This pact represents the best chance to spur renewed worldwide economic growth by stimulating hundreds of billions of dollars of added trade.

EC leaders should view the U.S. alert as a last call for make-or-break action on the agricultural deadlock. The EC has ignored two GATT rulings that the subsidies to European oilseed farmers distort normal trade.

To end the impasse, it will be up to German Chancellor Helmut Kohl and British Prime Minister John Major to put pressure on French President François Mitterrand, who is blocking measures to ease the EC's agricultural protectionism for fear of a political backlash from French farmers.

A breakthrough on oilseeds would open the way for compromises on other agricultural issues, including U.S. farm subsidies and agricultural import barriers. And for leaders worried about the backlash from farm lobbies on both sides of the Atlantic, losing the chance to lift the global economy out of the doldrums could be politically far more costly.

A BUSINESS ISN'T THE FIRST THING WE EXPECT YOU TO OPEN.

Before you can even think of opening a business or a plant in Alabama, you might have to overcome some misperceptions about the state—images shaped by the media and myths about the South. If that's the case, the first thing we want you to open is your mind.

Because only then will your eyes be open to all that Alabama has to offer.

Responding to the jokes about Alabama being years behind, Ray

Rosewall says, "That's absolutely not the

case. Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds,

"The city is much more of a melting pot of people than I expected."

Concerning the labor force, Ray says,

"They're very hard-working; you just don't find workers in the rest of the country who take so much pride in their accomplishments. As for professionals, we have found many bright engineers from the state's universities."

Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival in Montgomery. "But we saw the best production of Chekhov ever, and made

up our minds to come here at intermission," Tim says. "We felt that working with a theater that draws an audience from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The

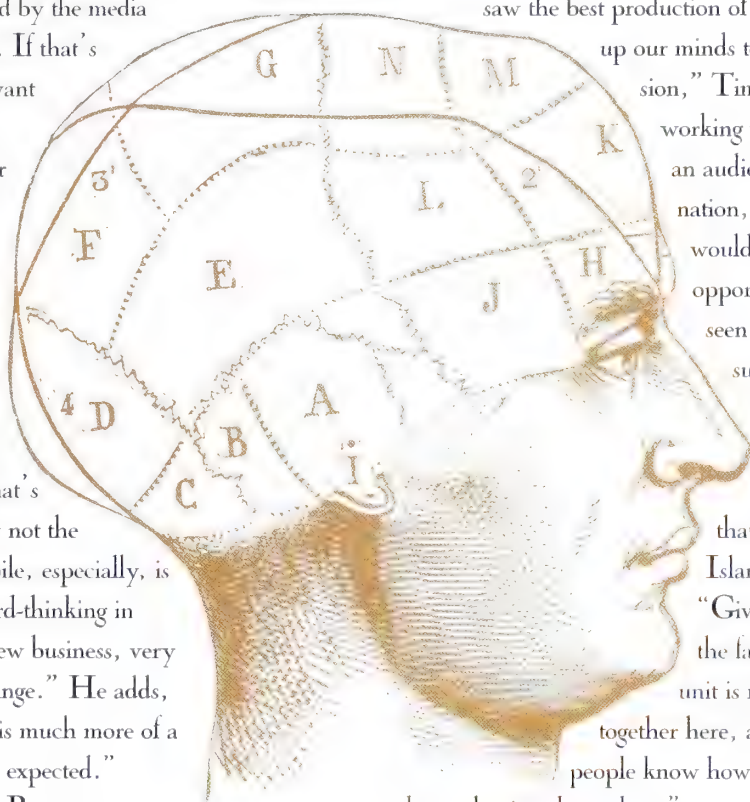
Langans, who have a six-year-old son and a 16-year-old daughter, say

that the move from Rhode Island to Alabama has

"Given us our family back...

the family unit is more together here, and people know how to relax and enjoy themselves."

When considering a location for a new plant or business, don't close your mind to Alabama. Because a closer look at us could broaden your mind. And your possibilities.



"Friends have asked us, 'When you get off the plane, do you set your watch back 20 years?'"

Ray Rosewall, Executive Vice President, QMS, Mobile

"We expected Shakespeare to be performed with a Southern accent!"

Tim Langan, Managing Director, The Alabama Shakespeare Festival, Montgomery



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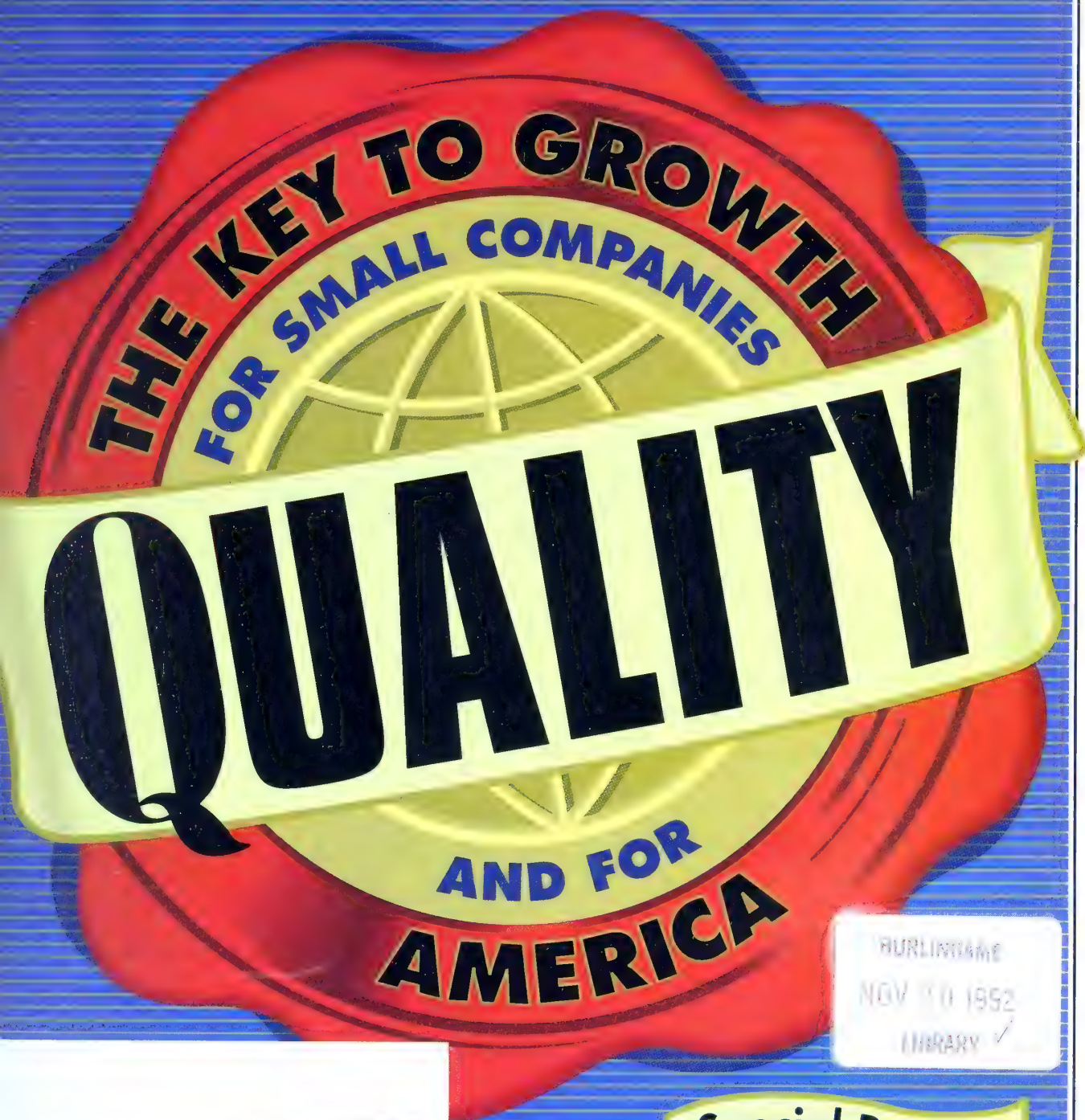


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claims and keep their promises, through some



Great Fire of London 1666

of the world's worst disasters



Tornado, Nebraska 1944

the burst pipe, the damaged roof. We've handled more of those than we

with the same integrity that we've brought to



Volcano, Mount St. Helens 1980

the ones that make the headlines

will strike,



Hurricane Hugo 1989

or how big or small it will be. There's one thing that we



Explosion 1980

disaster after a

DATE DUE

...y're a fact of life. For the past 200 years,



Dock Fire, New York 1813

...thousands of businesses



Flood, Johnstown, Ohio 1889

...whose financial resources and expertise have allowed them to pay their

...en the smallest disasters seem big to the



Hurricane, New England 1938

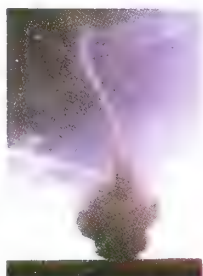
...companies they affect. The fire,

...could ever illustrate in a thousand advertisements. And always



Earthquake, Los Angeles 1971

...unfortunately, will always



Tornado, Iowa 1987

...be with us. We don't know where the next one

...do know though. We'll be there.

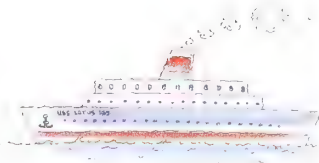
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Hype.

Saying bon voyage to your old spreadsheet is easier than you think.



Facts.

The Microsoft ad on the left has a lot to say about their spreadsheet, Microsoft® Excel. It also has a lot to say about 1-2-3® spreadsheet, 1-2-3®. But before you believe their ad, let's separate fact from hype.

The truth is, Microsoft isn't giving you all the facts.

Microsoft claims that Excel will read and write all Lotus® 1-2-3 spreadsheet files and run your 1-2-3 macros unmodified.

Not true.

Excel can't preserve 1-2-3 DOS formulas containing a 3D range. It can't convert a number of .WK3 files to Workbooks. It can't run 1-2-3 macros containing commands from versions dating back to Release 2.01.

More hype? Their ad also tells you that a 1-2-3 user need only type in a 1-2-3 command and Excel will show the equivalent command.

Wrong again.

The fact is, Excel can't execute your familiar commands in Releases 2.2, 2.3, 2.4 and 3.1. Try pressing /, *Range*, *Search* in Excel and guess what happens. Absolutely nothing.

The fact is, 1-2-3 for Windows offers the best transition from 1-2-3 for DOS. And complete compatibility.

If you're a 1-2-3 user, you've probably created and saved hundreds of 1-2-3 files, styles and macros. Face it, you'll certainly need to use them unmodified. Well, with 1-2-3 for Windows,™ you can. Because only 1-2-3 for Windows is able to read and execute *every* 1-2-3 for DOS file, style and macro. And only 1-2-3 for Windows—with its built-in Classic® Menu—lets you use all your familiar 1-2-3 commands.

What's more, only 1-2-3's 3D technology gives you easy access to 256 worksheets and lets you build true 3D formulas.

In comparison, Excel's Workbook is a limited imitation of true 3D. Try opening a large 1-2-3 3D file in Excel and see what happens. It might work. It might not.

Now ask yourself, why would a 1-2-3 for DOS user looking for the easiest way to move to Windows choose anything but 1-2-3 for Windows?

The fact is, the new 1-2-3 for Windows includes the most asked-for improvements.

The new release of 1-2-3 for Windows includes performance enhancements. For example, it's now the fastest Windows spreadsheet for printing on PostScript® printers. We've also added over 25 innovative new features, usability enhancements and programming tools.

The result?

1-2-3 for Windows is now one of the most powerful and easy-to-use spreadsheets ever developed.

Unmatched database capabilities in a spreadsheet.

If you're a spreadsheet user who needs to access external databases, 1-2-3 for Windows remains unmatched—particularly if you need relational capabilities. Excel's data access capabilities, on the other hand, rest on a third-party product that offers limited relational capabilities. Which explains why *Corporate Computing* (August 1992) recently wrote that "for the experienced 1-2-3 database user, 1-2-3 for Windows with DataLens® is the front-end tool of choice."

Join millions of spreadsheet users who prefer Lotus.

Not only do more people prefer our product, but according to the ComputerWorld Spreadsheet Brand Preference Study, more people prefer our company. In fact, Lotus beat everybody (including Microsoft) for the awards of "best company to do business with" and the "company that offers the best service and support."

For more information, visit your Lotus Authorized Reseller or call us today for your free demo disk at **1-800-TRADEUP, ext. 7218.***

After all, it only makes sense to base your spreadsheet decision on facts rather than hype.

Lotus

1-2-3 for Windows



DOING THE RIGHT THING: L.L. BEAN'S EFFICIENCY DRAWS FIVE 'LET US VISIT' REQUESTS A WEEK FROM COMPANIES LOOKING TO IMPROVE

Special Report

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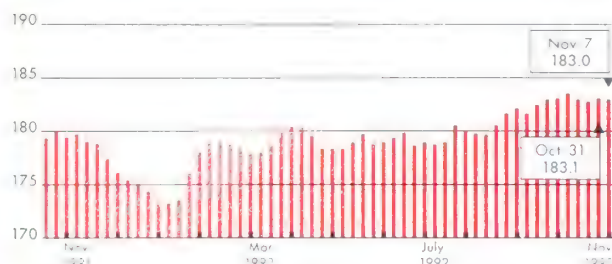
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Play fair in the air

BusinessWeek Index

PRODUCTION

Change from last week: -0.1%
Change from last year: 1.8%

1967=100 (four-week moving average)

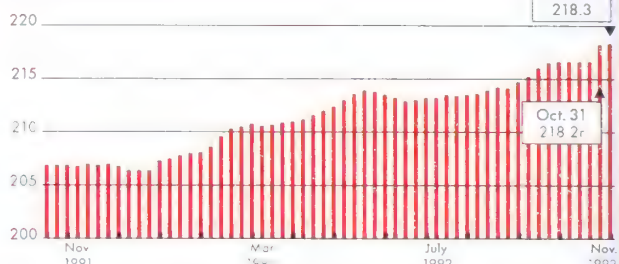


The production index dropped slightly during the week ended Nov. 7. On a seasonally adjusted basis, output levels of trucks, autos, steel, and lumber, plus rail-freight traffic, all declined. Crude-oil refining, paper, and paperboard production increased, while electric power and coal production were unchanged from the previous week. Before calculation of the four-week moving average, the index decreased to 182.3, from 183.7.

B.W. production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 5.6%



The leading index was virtually flat during the week ended Nov. 7. Higher bond yields, a big increase in the number of business failures, and deterioration in the growth of M2 offset a large improvement in the growth rate of real estate loans. Stock prices and the change in materials prices showed little movement. Before calculation of the four-week moving average, the index stood at 218.8, little changed from 218.7 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (11/14) thous. of net tons	1,726	1,674#	-4.4
AUTOS (11/14) units	128,551	122,581r#	-3.3
TRUCKS (11/14) units	98,144	90,665r#	34.7
ELECTRIC POWER (11/14) millions of kilowatt-hours	55,471	54,755#	2.2
CRUDE-OIL REFINING (11/14) thous. of bbl./day	13,591	13,539#	6.5
COAL (11/7) thous. of net tons	18,936#	18,959	-2.7
PAPERBOARD (11/7) thous. of tons	804.9#	798.1r	4.4
PAPER (11/7) thous. of tons	789.0#	794.0r	2.5
LUMBER (11/7) millions of ft.	477.2#	485.6	-3.4
RAIL FREIGHT (11/7) billions of ton-miles	21.6#	22.1	5.4

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/13) S&P 500	420.94	419.14	7.1
CORPORATE BOND YIELD, Aaa (11/13)	8.14%	8.12%	-3.1
INDUSTRIAL MATERIALS PRICES (11/13)	96.0	96.3	0.0
BUSINESS FAILURES (11/6)	417	395	-3.1
REAL ESTATE LOANS (11/4) billions	\$401.1	\$398.9r	-1.1
MONEY SUPPLY, M2 (11/2) billions	\$3,440.5	\$3,465.9r	1.0
INITIAL CLAIMS, UNEMPLOYMENT (10/31) thous.	355	360	-2.1

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Oct.) total index	109.0	108.7r	0.0
CAPACITY UTILIZATION (Oct.)	78.5%	78.4%	1.0
CONSUMER PRICE INDEX (Oct.)	141.8	141.3	3.0
RETAIL SALES (Oct.) billions	\$163.3	\$161.8r	5.0

Sources: Federal Reserve Board, BLS, Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/2)	\$1,017.4	\$1,009.1	1.5
BANKS' BUSINESS LOANS (11/4)	279.8	276.8r	-6.0
FREE RESERVES (11/4)	688	947r	-28.0
NONFINANCIAL COMMERCIAL PAPER (11/4)	149.1	146.3	10.0

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (11/17)	3.06%	2.98%	4.89%
PRIME (11/18)	6.00	6.00	7.50
COMMERCIAL PAPER 3-MONTH (11/17)	3.83	3.60	5.00
CERTIFICATES OF DEPOSIT 3-MONTH (11/17)	3.77	3.53	4.98
EURODOLLAR 3-MONTH (11/14)	3.61	3.46	5.01

Sources: Federal Reserve Board, First Boston

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (11/18)	124	124	130
GERMAN MARK (11/18)	1.59	1.59	1.60
BRITISH POUND (11/18)	1.52	1.52	1.80
FRENCH FRANC (11/18)	5.37	5.36	5.46
CANADIAN DOLLAR (11/18)	1.27	1.27	1.14
SWISS FRANC (11/18)	1.45	1.43	1.42
MEXICAN PESO (11/18)	3,097	3,122	3,072

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (11/18) \$/troy oz	335.100	331.150	-7.6
STEEL SCRAP (11/17) #1 heavy, \$/ton	89.00	89.00	-5.3
FOODSTUFFS (11/16) index, 1967=100	202.5	199.5	1.5
COPPER (11/14) c/lb	100.5	104.2	-9.1
ALUMINUM (11/14) c/lb	53.0	52.6	0.4
WHEAT (11/14) #2 hard, \$/bu	3.70	3.65	-1.1
COTTON (11/14) strict low middling 1-1/16 in., c/lb	50.28	49.39	-8.9

Sources: London Wednesday final settling, Chicago market, Commodity Research Bureau, Metals Week, Kans. City market, Memphis market

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value. NA=Not available. r=revised. NM=Not meaningful.



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*Author of *The Copier Productivity Primer*



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Hans van Oosterom, Executive Vice President Strategic Planning Akzo:

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CREATING THE RIGHT CHEMISTRY



10 BUSINESS WEEK NOVEMBER 30, 1992



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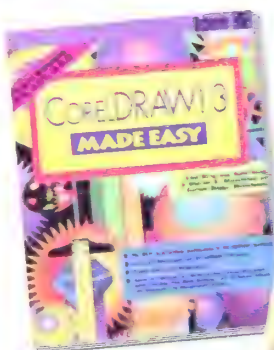
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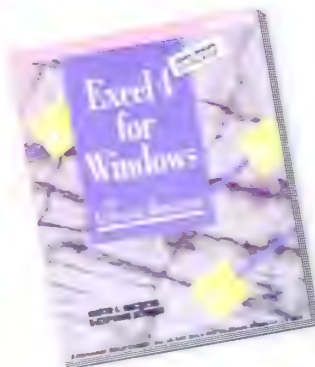
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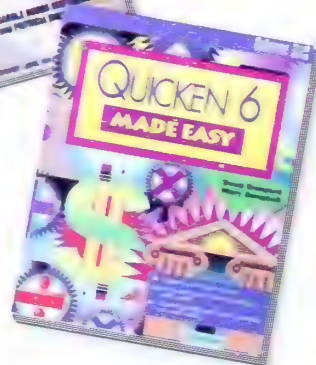
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OS/2 Inside & Out

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Readers Report

ets are dangerous enough without
ing legal "under the influence" per-
s roaming about.

Daryl H. Meeks
Sergeant

Los Angeles County Sheriff Dept.
Inglewood, Calif.

THE REAL ROGER SMITH WASE STAND UP?

s an assembly worker of the General Motors Corp. plant in Lordstown, Ohio, I sometimes raise eyebrows with a lot of BUSINESS WEEK constantly in my back pocket. As a rule, auto workers are generally sympathetic to the views of Big Business."

our commentary "Fixing GM: Pages 10-11 a radical repair manual" (Top of the News, Nov. 16) was right on. Your suggestions to replace Roger Smith on the board of directors with an official of the United Auto Workers would send a clear signal to the blue-collar men and women that the ax that is about to fall is a double-bladed.

any people at the shop-floor level have sympathy for Robert C. Stempel, but Roger Smith is universally despised. The most common comment that I heard about cost-cutting measures was that Smith's fat pension should go first. If management wants to get our attention, let's prove that this is not just another gimmick to get us to give concessions, but maybe they should walk around with a rolled-up copy of BUSINESS WEEK in their back pockets.

Bob Price
Austintown, Ohio

s a middle-level engineering manager at a major Detroit-area automobility supplier, your commentary regarding GM was very amusing to me. For example, Saturn Corp. is praised highly, yet it is recommended that Roger Smith be unceremoniously kicked off the board. It seems rather ironic to me that the one man at GM who is most responsible for the successful concept of Saturn should be so unjustly treated.

William M. Floyd
Livonia, Mich.

WHY WHO CAN'T AFFORD TO BUY AMERICAN

the report "Guess who isn't buying American" (Top of the News, Nov. 2), I ignore one significant factor.

the U. S. companies that are able to compete internationally lived on a buy-American diet—forgoing cheaper and lower-quality foreign goods when available—they would simply put themselves at a competitive disadvantage with their

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THE 1992

BUSINESS WEEK ASIA SYMPOSIUM OF CHIEF

EXECUTIVES

AT THIS ANNUAL INVITATIONAL SYMPOSIUM,
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Readers Report

sign competitors—thus joining the growing list of U.S. companies unable to compete internationally.

Patrick A. Garcia
San Antonio

GATT MAKES GOOD BUSINESS CASE—ALL AROUND THE GLOBE

Regarding your article in "Is Washington getting ready to give up on GATT?" (Top of the News, Nov. 9): Frustrating as it has been, I do not think there is much sentiment in Washington to give up the question of a General Agreement on Tariffs & Trade agreement in the Uruguay Round.

The driving force for the Uruguay Round has been the private business sector in virtually all of GATT's 105 member countries, very much including the U.S. private sector.

The U.S. private sector has much to gain from a good Uruguay Round agreement, as do the private sectors of virtually all countries.

Harry L. Freeman
Chevy Chase, Md.

UNITED WAY GROUP NOT RUNNING SCARED

In response to the comments by Robert A. Bothwell in "United they stand?"

(Top of the News, Oct. 19), I must say that the United Way volunteers in the Charleston (S.C.) area are not "scared bell." The volunteers are committed to raise as many funds as possible to support the vitally needed health and welfare organizations in our area.

John W. Hewell, Executive Director
United Way
Charleston, S.C.

PEROT, PEROT SPOKE FOR HIMSELF. THAT'S A MISTAKE?

In reference to the commentary "Ross Perot, plain as day" (Top of the News, Nov. 9), it appears that BUSINESS WEEK has joined the ranks of the popular media in helping to assure that no candidate will attempt to directly communicate with the American people. Yes, it is obvious to us all, Wendy Zellner, that Ross Perot needed a media consultant. I'm sure the next independent candidate will have learned from Perot's famous mistake of attempting to think and speak for himself, on his feet, without a script. Perhaps then in 1996, things can get back to normal... Get your Lawrence Welk music ready.

Frank Mascari
Westfield, N.J.

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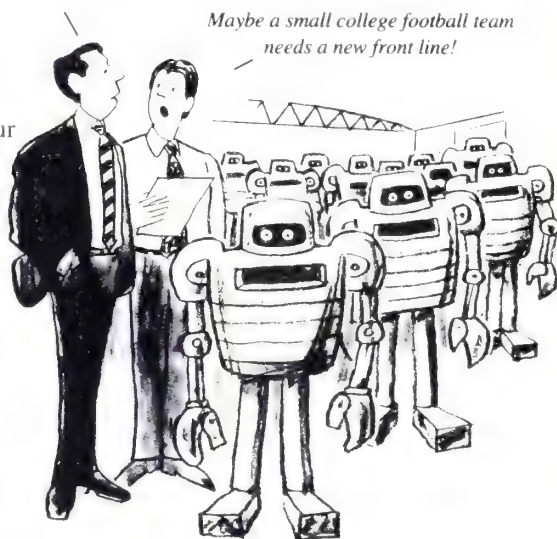


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Readers Report

sal drawl" offends me so much that I ever find a publication that is as formative and as well-put-together as BUSINESS WEEK is, I will switch in a sh.

ISSAN VS. FORD: COMPARING VALUES

Regarding Larry Armstrong's "A stylish sedan—sans sticker shock" (Personal Business, Nov. 9), it has been shown that people don't buy the upped-down version of a car line, so \$10,000 for the base Altima is no big deal. Compare the GXE version loaded the way most people buy their cars, and I have a different story. In April, I bought the newly designed 2002 Taurus LX optioned out with the 2.0 liter engine, dual air bags, antilock brakes, leather interior, climate control, electric moonroof, and more for \$18,400 plus tax. Just compare the size and value of my Ford family sedan to the Altima. I call that a bargain—and no dirty tricks from my United Auto Workers friends, since the car was made in Chicago by an American company. Sales of the Altima are currently running below company expectations. Maybe my example can help explain the reality.

Kenneth M. Tkatch
Boardman, Ohio

WHAT'S GOOD ABOUT AMERICAN EXPRESS: SERVICE

What you say about the American Express card is largely true, "less-than-fantastic plastic," Finance (Nov. 9). For several years, I have carried an unused Platinum card because the services provided make it much more useful to simply have than to actually use.

However, last month I began using it earnestly with every establishment that I take it, despite the great number of frequent-flyer miles I have been earning on my bank Visa card. The reason? The appalling and unconscionably inept service I received from the bank when I had a minor problem with my account.

No amount of goodies can compensate for those Kafkaesque experiences, and nobody can top American Express when it comes to customer service.

Lee Gruenfeld
Santa Monica, Calif.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4464, or (212) 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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From here on in, every luxury car has to re

The BMW 525i: \$35,600. The Mercedes 300E: \$42,950. The Lexus LS400: \$44,300. The Acura Legend: \$42,000. The Cadillac Seville: \$42,000. The Lincoln Town Car: \$38,000. The Jaguar XJ6: \$42,000. The Volvo 740 GLE: \$42,000. The Chrysler Concorde: \$28,000.* Those are the kinds of numbers people believe they have to pay for a high-quality, high-performance luxury sedan. (And of course, the companies that make these cars, not being dumb, c



courage this belief by raising those prices every year.) However, the time has officially come to take a long, hard look at the relationship between a car's price and its value. What's made that necessary is a startling development called the Chrysler Concorde. The Chrysler Concorde is a new luxury sedan w



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e horsepower than a BMW 525i, more torque than a Nissan 300 ZX. And thanks to a revolutionary
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s a list of standard features that reads like a wish list (including dual air bags). And when it comes to



how it drives, *Motor Trend* describes it this
way: "lithe and agile, the balanced handling
of a sports sedan, a ball to drive." Which
brings us to the bottom line. The Chrysler
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Books

THE DARK SIDE OF POWER: THE REAL ARMAND HAMMER

By Carl Blumay with Henry Edwards
Simon & Schuster • 494pp • \$25

DR. HAMMER AND MR. HYDE

When I was a young reporter with *The Wall Street Journal* in Los Angeles back in 1960, Carl Blumay got to be an office joke. A local PR man, he dropped by constantly to deliver inconsequential news releases for a small oil producer, Occidental Petroleum Corp. Blumay would bend our ears, suggesting that a new Oxy drilling project was likely to uncover the next Saudi Arabia. We'd listen—he was a nice guy—then toss his releases in the trash.

In time, of course, Oxy made it big. And in the process, its chairman, Dr. Armand Hammer, became one of America's most celebrated business heroes. He hobnobbed with Leonid Brezhnev and Prince Charles, toured the world with his art collection, and gave millions to cancer research. When he died in 1990 at 92, he was still Oxy's boss.

Through the years, a few writers said the Hammer legend was at least part sham. It may be that they were generous. In *The Dark Side of Power*, Blumay, for 25 years Hammer's chief image-builder, relates an astounding tale of bribery, manipulation, and deceit. As Blumay tells it, behind the warmth that charmed so many—including me—Hammer was a self-obsessed con man.

Blumay may have an ax to grind: He quit Oxy in 1980 after Hammer put an outsider over him. And some of his fly-on-the-wall accounts seem too good to be true. Did he jot down quotes over the years? Plus his chief source for personal dirt was Hammer's brother Victor, now dead. Yet most of the book rings true, because Blumay gives the inside scoop on things long reported or suspected: Hammer's campaign for a Nobel Prize,

his ego-ventures at company expense. The book is fascinating and disturbing—an indictment of toothless corporate regulation and a revelation of what we whine to report on business are up against.

Hammer, says Blumay, lied constantly. He inflated Oxy gas reserves in Securities & Exchange Commission filings. He ordered Blumay to refute journalists' assertions that both knew were true. He claimed to have been President Kennedy's "special trade adviser" was a falsehood, as were his averred close ties to other U.S. leaders. Indeed, Blumay documents Hammer's pitiful attempts to curry favor with Presidents of all political stripes. Hammer detested Richard Nixon—whom he resembled in his need for adulation and his vindictiveness—but gave heavily to his campaigns. Near every President seems to have found Hammer as much a pest as I used to consider Blumay.

Hammer's office had an impressive display of photos of him with world leaders. Some were fakes, says Blumay, who doctored one on the boss's orders, erasing people between Hammer and President Eisenhower and pushing the two together. Many of the Fabergé eggs Hammer gave as gifts were also fakes.

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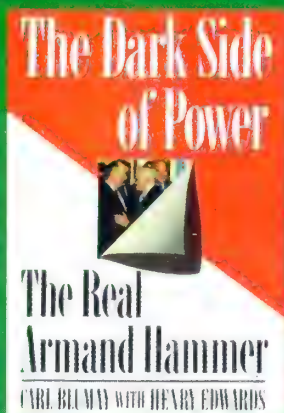
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Blumay. So were toes he passed out to New York security analysts during a speech. He said they'd been trucked from California, kept fresh by a new Oxy process. But his brother had caught them locally.

Hammer, Blumay says, had bribes as freely as a Libyan official got planes. Some key Nigerians got homosexual prostitutes. A California lawmaker got \$1,500 a month for tips on state affairs. Seeking an exploration contract, Hammer paid \$5,000 to every Venezuelan legislator, says Blumay. He also paid \$100,000 to a Soviet minister—those rivals may have killed her as a result. As for Hammer's vaunted Soviet connections, Blumay calls him a "pimp to the Politburo" who tried to deflect U.S. reaction to Moscow deviousness. But Blumay doesn't back up his insinuations of KGB ties.

Hammer was a womanizer well into old age. For many years, says Blumay, his limo could be found outside the home of a female Oxy employee several after-

An astounding tale of manipulation, bribery, and deceit, told by Hammer's own image-builder



noons a week. His wife nearly left him. That she didn't is amazing: At a political function described here, she tripped and fell on her face. Hammer rushed ahead to be photographed with a celebrity.

Hammer's deceit peaked in 1976, when he feared prison for illegal contributions to Nixon. To avoid court, he holed up in a hospital, feigning heart trouble. His wife brought corned-beef sandwiches, and he ran Oxy from bed. When he did go to court, he wore an oversize suit to look like "a shriveled gnome," says Blu-

may. He was only fined. Back at the hospital, he leapt from his wheelchair in a victory jig.

Shocking, and—let's admit it—appealing. Our perverse sympathy for rule-breakers makes some of Hammer's knavery seem inspired. He calls to mind such literary rascals as Mr. Toad in *The Wind in the Willows*, especially when he boasts: "There has never been anyone like me. There will never be again. I'm the greatest industrial genius who ever lived."

Blumay, of course, often spread Hammer's lies. His excuse? Hammer was "the most stimulating and exciting man I had ever met." Chances are, he also paid well. Whatever Blumay's motives, these confessions of a PR man, based on his quarter-century as Hammer's confidant, may help expiate some past transgressions. *The Dark Side of Power* has an authority that Blumay's press releases never did.

BY STEWART TOY

Paris Bureau Chief Toy previously covered Oxy for *BUSINESS WEEK* in Los Angeles.

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MR. CLINTON, THE PEOPLE SAID: 'THINK SMALL'

BY PAUL CRAIG ROBERTS



Bush failed to maintain Reagan's legacy of scaling back government, and the economy turned sour. Now, liberals are urging Clinton to make the same mistake. If he listens, he may pay the same price

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

The Democratic Leadership Council, which claims President-elect Bill Clinton as its moderate standard-bearer, is already in trouble. The party's liberal wing, which the DLC was formed to combat, is claiming that Clinton's 43% of the popular vote (less than Michael Dukakis') is a mandate for change. The problem lies in what the liberals mean by change: faster-growing government.

Exit polls on Nov. 3 clearly showed an electorate in no mood to embrace large-scale new spending programs. When presented with a choice between government that provides "more services but costs more in taxes" and one that provides fewer services and costs less, voters favored smaller government by a margin of 3 to 2. Liberals, however, such as columnist A.M. Rosenthal of *The New York Times*, have convinced themselves that Clinton's victory means a departure from the philosophy that "government and taxes are the ruin of America."

Liberals call this view "the Reagan-Bush philosophy," but by any measure, government has grown under George Bush. He took government spending, measured as a share of gross domestic product, to record levels. This ratio is high partly because of low economic growth, but the poor growth performance may itself reflect Bush's pro-government policies.

In testimony on Nov. 6 before the congressional Joint Economic Committee, economist Richard W. Rahn showed that the postwar U.S. economy grew fastest during the Kennedy and Reagan years. These periods were characterized by tax-rate reductions and declines in government spending as a percent of GDP. Under Carter and Bush, by contrast, the government took a rising share of the economy, and growth faltered.

BUDGET TRICK. Measured in real, inflation-adjusted terms, the compound annual growth of federal outlays under Bush was 3.2%. This is higher than Ronald Reagan's 2.5% or Nixon-Ford's 2.7% but less than Jimmy Carter's 4%. If the cost of the deposit insurance bailout is excluded, Bush's figure drops to 2.6%, close to Reagan's. Bush's spending record, however, reflects a defense buildup that helped to bring down the Soviet empire, while Bush's record benefits from a defense build-down. Bush is clearly no Reagan, and to speak of a Reagan-Bush record is to combine apples and oranges.

Many conservatives believe that the purpose of the infamous 1990 budget deal, which required Bush to break his no-new-taxes pledge, was to remove the Gramm-Rudman caps on spending. There are grounds for this suspicion. A comparison of the Congressional Budget Office's August, 1992, budget esti-

mates with its January, 1989, estimate (prior to the budget deal) shows a \$226 billion increase in federal outlays for the 1990-93 period. Despite the tax increase that was part of the budget deal, federal revenues for the period are now projected to be \$363 billion lower. Consequently, the deficit widened by \$589 billion during the four-year period—a far cry from the promised \$500 billion reduction.

Regulation is another measure of the growth of government. Under Bush, regulatory costs exploded. These costs have hit small businesses—the main engine of job creation—particularly hard. In a study for the Joint Economic Committee, economists Lowell E. Galaway and Gary M. Anderson compiled an index showing an extraordinary jump in the tax and regulatory burdens per worker, from less than \$4,000 in 1989 to \$5,300 in 1992. Profit per worker fell, from \$3,000 in 1989 to less than \$600 in 1992. This combination took the steam out of job and economic growth.

POOR PUNDITRY. Both Carter and Bush were one-term Presidents. Carter was bounced because, under his mismanagement, government grew faster than the economy. Reagan reversed Carter's course—the economy grew faster. But Bush reversed the Reagan course and the increase of the government's budget outstripped economic growth. If people this year have voted for change, they expect Clinton to return to Reagan's policy of emphasizing economic growth.

But this is not what the liberals mean by change. To hear them tell it, Bush is a continuation of Reagan. But it flies in the face of the facts to argue that Bush has strangled the government, deprived it of resources, and let "pressing public needs go unmet."

Clinton needs to understand that the resources that are used to feed the growth of government cannot simultaneously feed the growth of the private economy. The increases in taxes, borrowing, and regulation required to direct more resources to the government sector would take the same toll on the economy under Clinton as under Bush or Carter. If pundits convince Clinton that change means more of the same, then he, too, will be a one-term President.

From the tip of South America up through Mexico to Sweden and across Russia to China the world has concluded that government is the problem. But if those Clinton advisers who believe bigger government is the solution prevail, change will mean the tired solution that the rest of the world is abandoning. In this case, the Americans who will prosper will be the organized special-interest groups that live off the taxpayer.

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BY GENE KORETZ

RING! RING! OH, MR. KEYNES, IT'S AN EMERGENCY

According to one respected economist, a specter is haunting the industrial world: the growing threat of a downward slide into a depression reminiscent of the 1930s. And the best way to avoid such a disaster, he says, is to follow the advice of a man whose name still raises hackles in business and economic circles: John Maynard Keynes.

This view comes not from a liberal ideologue but from a resident scholar at a conservative think tank, the American Enterprise Institute. In a recent AEI commentary, economist John H.

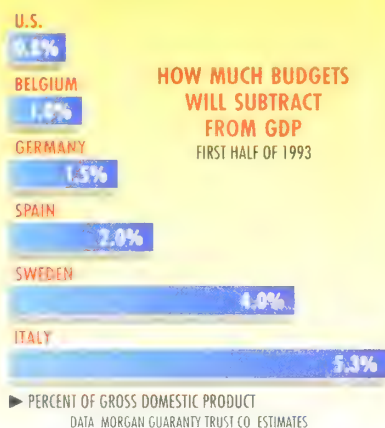
mists report that Belgium, France, Germany, Italy, Spain, Sweden, and other European nations are moving toward fiscal restraint (chart). Meanwhile, fiscal policy is only modestly stimulative in recession-wracked Britain. And in Japan, political wrangling and the threat of a widening deficit caused by falling tax receipts are delaying passage of budgetary stimulus.

The outlook for the U.S. is also problematic. Makin points out that fiscal policy was mildly stimulative in fiscal 1992 partly because the Bush Administration cut withholding-tax rates. But this will result in lower tax refunds and a swing to fiscal contraction in 1993.

The key question is whether Bill Clinton, who has vowed to shrink the deficit, can reverse this swing. Clinton's plan to shift both the tax burden and the direction of spending without raising the deficit would have little effect on the current fiscal drag in the budget. The best tack, says Makin, would be to front-load tax cuts to spur investment and spending and to tie them to firm commitments to cut back future entitlement spending. But such promises will be hard to sell to fiscal conservatives in Congress and wary financial markets.

In short, both ideological and political constraints seem to be leading the U.S. and other nations to ignore Keynes's original message and to follow policies of fiscal restraint in the face of weakening economies. "If these policies are pursued aggressively," warns Makin, "they could cause a global depression."

THE GLOBAL SHIFT TOWARD FISCAL TIGHTENING



Makin argues that fiscal orthodoxy—"the notion that reducing budget deficits is always a good idea"—is dominating global economic policymaking at the very time it seems clearly inappropriate.

Keynes' basic insight, notes Makin, was that government fiscal policy should be used actively as a "countercyclical" tool, both to counteract slowdowns via deficit expansion and to temper booms via budgetary restraint. Policymakers perverted Keynesianism in the 1960s and 1970s by failing to switch to fiscal restraint on the upside of the cycle, eventually causing inflation to explode.

The problem, says Makin, is that the trauma of that experience has led policymakers to reject the validity of Keynes's original message regarding the need for fiscal stimulus during contractions. Indeed, even as the sluggish world economy weakens further and inflation hits new lows, governments continue to favor deflationary fiscal policies.

Morgan Guaranty Trust Co. econo-

AROUND THE WORLD, A SLUGGISH FIRST HALF IS 'BAKED IN THE CAKE'

What makes the current stance of major industrial nations so worrisome to many observers is lack of monetary stimulus. Economists Merrill Lynch & Co. calculate that the real global money supply (the sum inflation-adjusted broad monetary aggregates in five key advanced nations weighted by gross domestic product) has been stagnant for about six months. Indeed, in Japan, the money supply has been declining for the first time in the postwar period.

Since real monetary growth tends to lead economic activity by 6 to 12 months, Merrill Lynch economist Stephen R. Waite says that "a very sluggish first half for the global economy in 1993 is more or less baked in the cake."

To be sure, with interest rates falling in the U.S. and Japan and likely to tumble in Europe in coming months, Merrill Lynch thinks the preconditions for worldwide recovery by the second half of next year are falling into place. But that assumes that expansionary monetary policies will prove more effective overseas than they have in the U.S., rapidly reversing the pervasive slowdown afflicting the global economy.

HARK, THE GIFT-WRAP INDEX SINGS OF MERRIER RETAILERS

It's hardly in the bag yet—or rather, the stocking—but suddenly, the signs are pointing to a merrier Christmas than many economic Cassandras had anticipated. Not only did consumer confidence surge in early November but retail sales also jumped a healthy 0.9% in October.

What's more, retailers are apparently in a positive mood. Peter P. Appert, analyst at C. J. Lawrence Inc., reports that shipments from major gift-wrap manufacturers to retailers in the past few months are outpacing last year's meager gain. In past Christmas seasons such shipments were highly correlated with nondurable retail sales.

"Our gift-wrap indicator," says Appert, "currently points to a merry, though not booming—Christmas, suggesting that fourth-quarter sales in apparel and other nondurables will be 4.2% over last year." That's higher than inflation and considerably better than last Christmas' paltry 1.1% rise.

TRADE WITH CHINA: MORE OF A ONE-WAY THAN TWO-WAY STREET

It's hardly surprising that the Chinese are concerned about the possible use of trade sanctions by the incoming Clinton Administration to pressure them to move toward political democracy. China has now become the world's fastest-growing economy, with GDP expected to jump by nearly 12% this year. And demand from the U.S. is obviously playing a significant part in that growth.

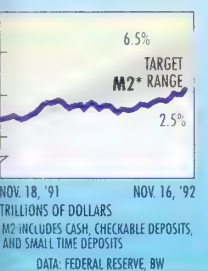
During the first eight months of this year, Chinese exports to the U.S. soared by 41%, to \$15.8 billion. Indeed, trade with China accounts for 44% of the \$9.1 billion widening of America's overall trade deficit through August of this year. In that period, the U.S.-Chinese trade shortfall has jumped to \$11.2 billion from \$7.2 billion in the first eight months of 1991, making China the source of America's second-largest bilateral trade deficit, after Japan.

DON'T EXPECT ANY SUDDEN MOVES FROM THE FED

The fly on the wall at this meeting got an earful. When the Federal Reserve Board sat down behind closed doors on Nov. 17 to map out monetary policy for the coming weeks, the session was easily the most important in several months.

Two things have changed since the central bank's last meeting—big things. First, a new Democratic Administration with its own fiscal agenda and a White-House-friendly Congress raise new questions for the Fed. Until the election, it essentially had complete control over economic policy. Now, with fiscal gridlock gone, the Fed will no longer make its decisions in a vacuum.

THE MONEY SUPPLY IS GROWING FASTER



have firmed up. And they softened on the two previous occasions. Once again, the Fed must decide if its job is done; that is, if the economy is finally able to move ahead under its own power.

The betting is that the central bank will give the economy the benefit of the doubt while waiting to see how fiscal policy unfolds. Consequently, the Fed probably decided to retain a bias toward further easing in coming weeks, but it is unlikely to carry through on any more interest-rate cuts, either this year or next. In fact, chances are increasing that the Fed's next move will be a tightening of policy, but that is still a long way off.

THE FED'S WORK MAY BE FINISHED

The rationale for further rate cuts is rapidly disappearing. In the past, the Fed's stated reasons for easing policy have been a sluggish economy, below-target money growth, and declining inflation. Although inflation remains the best part of the outlook, the recent spate of bet-ter-looking indicators is the main reason that monetary policy is probably on hold for now. In particular, new bank loans jumped by \$11 billion in September—the largest monthly increase in about two years. Weekly data suggest another, although smaller, advance in October, led by further gains in real estate

lending and in commercial and industrial borrowing.

As a result, the broad money supply—measured by M2—is showing some new life. It rose strongly in both September and October, capped by an enormous \$11.9 billion jump in the week ended Nov. 2. That was the biggest weekly gain in three years. The M2 measure has grown at a 2.4% annual rate from its yearend 1991 level, and chances are improving that M2 will finish the year within the Fed's target range of 2.5% to 6.5%.

GROWTH MAY YET REMAIN HUMDRUM

But despite the latest encouraging numbers, there is still no sure sign that the economy is ready to perform significantly better than its 2.4% growth rate so far in 1992. Growth is not likely to break out of that humdrum pattern until the second half of 1993, when a dollop of expected fiscal stimulus and further inroads against the economy's structural barriers provide the push.

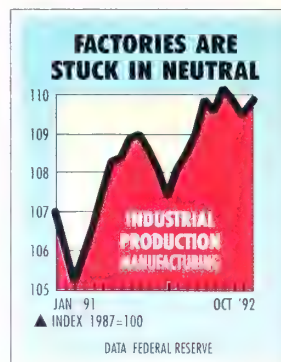
Still, the Fed probably would be happy with that result. It implies further gradual improvement that would keep pressure off inflation. Besides, after cutting short-term rates from 8¼% down to 3% in 2½ years, another small slice would hardly alter the economy's momentum.

The missing ingredient in faster economic growth remains jobs. On that front, the recent drop in jobless claims provides hope—but not assurance. New claims fell in late October to the lowest weekly rate in two years. But while the decline may signal fewer layoffs, that doesn't necessarily mean a big pickup in hiring.

Restructuring and cost-cutting are an ongoing passion in Corporate America. Although fewer layoffs may allow net payroll gains in coming months, those gains are likely to be far below the 200,000 or so per month that are common during an economic expansion.

Indeed, manufacturers shed 56,000 employees in October—the second-largest payroll cut in 1½ years. And industrial production is going nowhere (chart). Output of manufacturers, mines, and utilities rose 0.3% in October, but it had declined in three of the four previous months. Output at the beginning of the fourth quarter was flat with the third-quarter level.

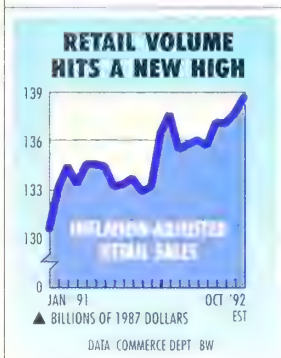
Manufacturing output alone also rose 0.3% last month, but the gain was not broad. Increased production of cars and trucks accounted for 0.2 percentage point of the ad-



Business Outlook

vance. Even with Detroit's contribution, though, factory output in October was no higher than it was in May.

Despite their current malaise, however, manufacturers are ready to lift output as quickly as new demand dictates. Factories quashed their summer inventory buildup with output cuts, and stock levels throughout the economy remain lean. Inventories in manufacturing and trade held steady in September, after rising during the three previous months. And the ratio of stock levels to sales fell back very close to a 3½-year low.



Judging by the recent gains in retailing, factory orders might pick up a little in coming months. Retail sales rose a broad 0.9% in October, on top of a 0.5% gain in September. Sales of furniture and building materials were up strongly, probably reflecting post-hurricane rebuilding, mostly in Florida.

After adjusting for inflation, retail volume in October was the highest ever (chart). Real retail sales began the fourth quarter with a 4% jump, at an annual rate, above the third-quarter average.

The early November surge in the University of Michigan's index of consumer sentiment shows that consumers are more upbeat. But the experience since 1990 has proven that how consumers feel is not as important to spending as what's in their wallets. Indeed, in early November, car sales fell off, and the Johnson Redbook Service reports that department-store sales weakened.

However, the September surge in imports suggests that U.S. manufacturers may not be getting the full benefit of better retail buying. Although exports jumped 6.8% in September, to a record \$38.2 billion, imports also hit a record. They rose 4%, to \$46.5 billion. The trade deficit narrowed a bit, to \$8.3 billion from \$8.9 billion in

August, but for the quarter, it widened substantially.

That widening trend should continue, exerting a drag on the economy. U.S. growth is uninspiring, but the rest of the industrialized world is doing even worse. That means the September pace of exports is not sustainable.

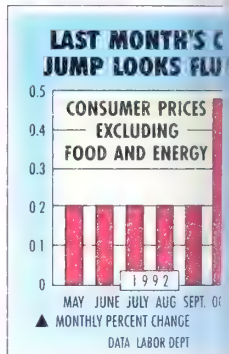
INFLATION IS STILL UNDER CONTROL

The October burst in retail sales was matched by a flare-up in consumer prices. But while sales gains were widespread, the price blip occurred in just a few items. That means inflation is still well under control.

The consumer price index jumped 0.4% in October, twice its September pace. Excluding food and energy, the core CPI was up by 0.5%, the largest gain in seven months (chart). But unusual leaps in the prices of tobacco products and airfare, along with a hurricane-related jump in housing costs, caused almost all of the increase. None of those jumps will be repeated in coming months.

Even with the October fluke, inflation remains one headache that isn't troubling the Fed. The yearly core-inflation rate stands at only 3.5%. And the weakness in both factory output and the labor markets indicates that two major price pressures—tight industrial capacity and faster wage growth—won't appear on the economic scene until late in 1993. And that will remain true even if the new Administration decides to do some pump-priming.

The new dynamics in Washington may change some of the Fed's policymaking strategy, but the object of the game remains the same: balancing faster growth with the need to hold down inflation. With that target now within striking distance, the Fed will put monetary policy on hold, while it waits for the new Administration to settle in and make its first move on fiscal policy.



THE WEEK AHEAD

FEDERAL BUDGET

Monday, Nov. 23

The federal government will probably report a deficit of \$41.3 billion in October, the first month of fiscal 1993. That's the expectation of economists surveyed by MMS International, a unit of McGraw-Hill Inc. In October, 1991, the government was \$36.6 billion in the red. For all of fiscal 1992, the federal deficit stood at a record \$290.2 billion.

DURABLE GOODS ORDERS

Tuesday, Nov. 24, 8:30 a.m.

New orders for durable goods probably increased by a small 1% in October. That's indicated by the better pace of durable-goods production in October. Or-

ders have fallen for three months in a row, including a 0.1% drop in September. The expected gain suggests that the backlog of unfilled orders—which has fallen for more than a year—may post a small rise for October.

GROSS DOMESTIC PRODUCT (REVISION)

Wednesday, Nov. 25, 8:30 a.m.

The MMS economists expect that the Commerce Dept. will not change its original estimate that the economy grew at an annual rate of 2.7% in the third quarter. An upward revision of consumer spending may be offset by a widening of the foreign-trade deficit last quarter. Real GDP grew at a 1.5% pace in the second period. The MMS consensus also projects that corporate aftertax profits

were little changed in the third quarter, after rising 1.3% in the second

PERSONAL INCOME

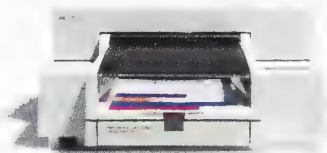
Friday, Nov. 27, 10 a.m.

Personal income likely rose by 0.5% in October on top of a 0.7% gain in September. That's suggested by a 0.8% increase in weekly pay and a 0.8% rise in nonfarm jobs. Consumer spending probably advanced by 0.6% last month. Retail sales were up by a strong 0.9% in October, but demand for services, which jumped 1.2% in September, probably fell back in October. Most of the spending in September was related to the late summer hurricanes, and as a result, total consumer purchases rose 0.7% in September.

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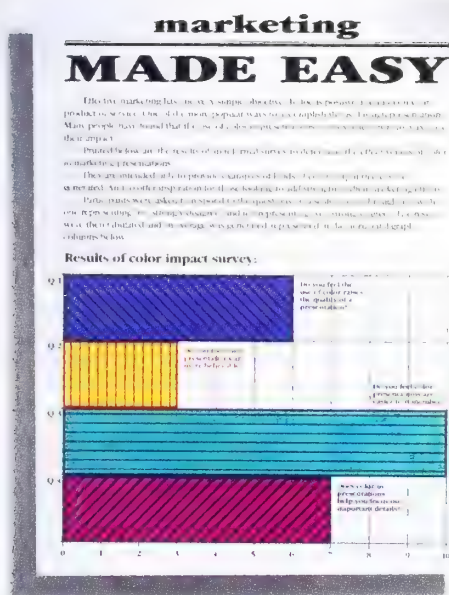
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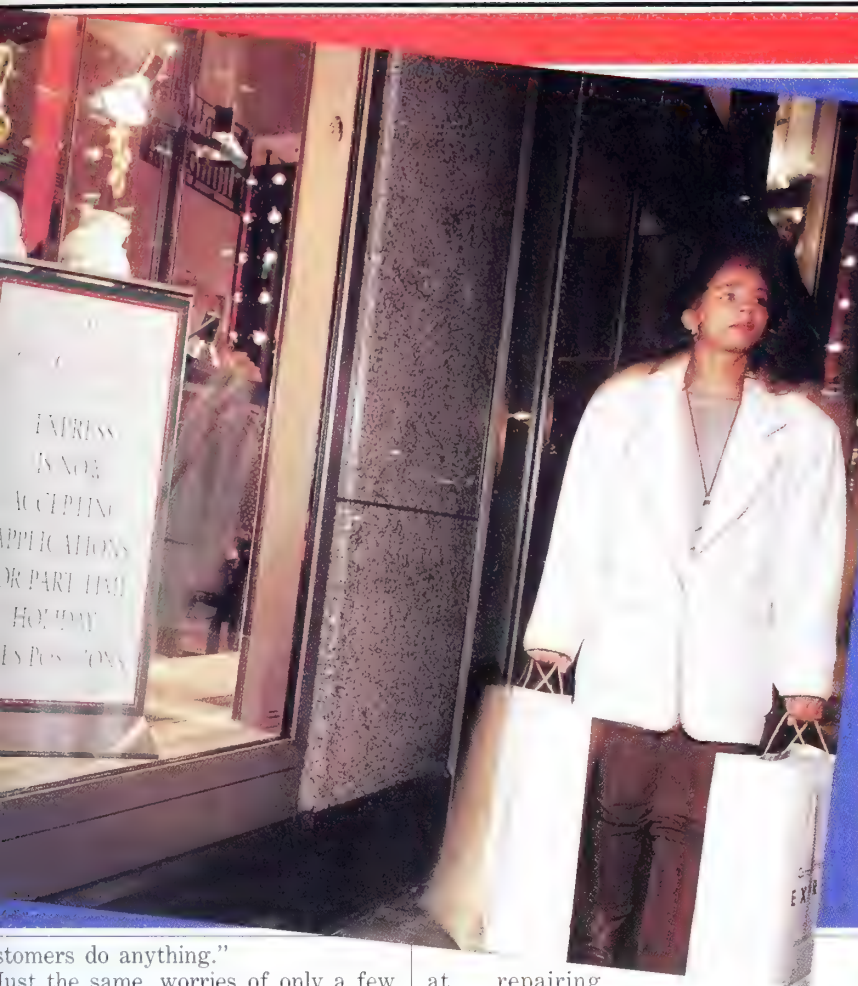
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customers do anything.” Just the same, worries of only a few months ago about a “triple dip” into recession seem increasingly remote. What opened? Maybe it’s that America’s efforts to work off the excesses of the 1980s during the hard times of the past few years are finally paying off. Ruthless cost cutting, combined with management for quality, has boosted corporate productivity growth to a 2.6% annual rate, vs. 1.3% last year. Corporate earnings are up by more than 30% from a year ago. And businesses have streamlined their balance sheets: Between the first quarter of 1991 and the third quarter of this year, the share of business cash flow devoted to net interest payments fell from 26.2% to 20.7%. Consumers have been almost as adept

at repairing their finances. Americans now spend about 16% of their disposable income on debt payments, down from 18.2% at the start of last year, estimates Mark Zandi, economist at Regional Financial Assoc. And home buyers have taken advantage of lower interest rates engineered by the Federal Reserve. Thanks to low rates, Patti Coyne, a 44-year-old elementary school teacher, was able to buy a house near Pittsburgh in October. She fixed it up and now is renting it out at a profit. “A middle-class person can use this [lower rates] to get slightly ahead,” Coyne says.

QUIET HIRING. Look closely, and there are even some positive signs in the tepid U.S. job market. The job-creation num-

bers show that private employment has barely increased. But initial unemployment claims have dropped to their lowest level since the middle of 1990. Indeed, the Labor Dept. estimated that business startups created 50,000 new jobs, up from 10,000 in the first quarter of 1992. And such white-collar industries as securities and investment firms, advertising agencies, and consulting and other management services companies are showing new strength. Hard-hit by the recession, such business quietly increased payrolls at a 5.1% annual clip in the third quarter (page 110).

Harder to measure is the surge in optimism created by Clinton’s victory. For months, the Presidential election’s uncertain outcome had clouded business and consumer expectations. Some simply may be relieved that the din of the campaign has abated. But the prospect of new leadership in Washington seems to have many Americans feeling hopeful. “I’m looking forward to renewed optimism and activism on the part of the government, as opposed to the hand-wringing in the last Administration,” says Paul J. Choquette Jr., chief executive of Gilbane Building Co., a construction company in Providence that has been hard-hit by the economy’s slump.

Come January, taking a true reading of the economy’s pulse will be Clinton’s toughest job. True, even if solid signs of recovery don’t peter out, as has happened several times in the recent past, the economy will still need a jolt of government spending. The reason: Today’s rising confidence among consumers and businesses that 1993 will be better than 1992 is based partly on expectations of a modest fiscal package designed to ensure that the recovery picks up steam. But the stronger the economy, the less pressure Clinton will face to sharply increase the federal budget deficit. In politics, the business cycle is everything.

By Christopher Farrell in New York, with Mark Maremont in Boston, Stephanie Anderson Forest in Dallas, and bureau reports

...VS. LINGERING QUESTION MARKS

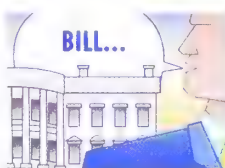


HOW BUSINESS FEELS ABOUT BILL CLINTON NOW

JOB NO. 1

■ What is the most important signal the new President can send business and the financial markets about his future intentions?

Reduce the deficit	17%
Reduce government spending	10%
Avoid tax hikes	8%
Stimulate the economy	7%
Offer business incentives	7%
All others/Don't know	51%



GRAB BAG

■ Let me read you some statements about President-elect Clinton. For each, tell me whether you agree strongly, agree somewhat, disagree somewhat, or disagree strongly.

	Agree strongly	Agree somewhat	Disagree somewhat	Disagree strongly	Not sure
He doesn't understand how business works	18%	36%	37%	8%	1%
He'll boost public confidence in the economy and could spur consumer spending	10%	66%	18%	5%	1%
He's trying to do too much and spend too much	33%	37%	20%	6%	4%
With a President and Congress from the same party, the government will be able to accomplish more	26%	43%	20%	10%	1%
He'll be captured by Democratic interest groups	32%	44%	19%	4%	1%
His plan may actually work and spur investment	5%	59%	24%	8%	4%
His program will saddle business with costly new regulations	40%	37%	18%	3%	2%
He'll get tough with Japan on trade	11%	45%	34%	8%	2%
Like many Democrats, he's temperamentally hostile to business	13%	31%	42%	14%	0%
The country needs youth and energy to meet the challenges of the '90s	39%	35%	18%	7%	1%

THE LONG AND SHORT OF IT

■ If the economy remains sluggish through January, should President-elect Clinton push for short-term economic stimulus or try to boost long-term investment?

Push short-term economic stimulus	17%
Boost long-term investment	78%
Not sure	5%

FIRST THINGS FIRST

■ A President can't do everything in his first 100 days. Which of the following portions of his program should Clinton implement in his first 100 days, do later, or not do at all?

	Implement 100 days	Do later	Not do at all	Not sure
Investment tax credit	86%	10%	4%	0%
Increased taxes on highest earners	28%	28%	44%	0%
Expanded federal support for education and training	27%	62%	11%	0%
Reform health-care system	25%	69%	6%	0%
Middle-class tax cut	20%	36%	44%	0%

HOW SHARP A KNIFE?

■ President-elect Clinton says he would like to cut the federal deficit in half over the next four years. Given the magnitude of the deficit problem and the need to boost economic growth, do you think his plan is too cautious, about right, or too ambitious?

Too cautious	10%
About right	28%
Too ambitious	61%
Not sure	1%

HEALTHY SKEPTICISM

■ President-elect Clinton is backing a health-care reform proposal that would require employers to buy coverage for their employees, either from private insurers or from a public plan. Companies that couldn't afford coverage on their own would be helped by tax credits, and a national ceiling would be set on health-care spending. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose that plan?

Strongly favor	7%
Somewhat favor	42%
Somewhat oppose	24%
Strongly oppose	25%
Not sure	2%

LIBERALS IN DISGUISE?

■ Which of the following statements is closest to your view of the incoming Clinton-Gore Administration?*

	Nov.	July-Aug.
They are a new breed of Democrats more attuned to economic growth and the concerns of middle-class Americans	53%	33%
They are posing as champions of growth and the middle class, but are really "tax and spend" liberals in disguise	45%	64%
Not sure	2%	3%

*July-Aug. poll referred to "the Clinton-Gore Ticket"

FOR BETTER OR WORSE

■ Now thinking about your company, do you think it will do better in a Clinton Administration, worse, or about the same?

Better	19%
Worse	23%
About the same	58%
Not sure	0%

Edited by Mark N. Vamos

Survey of 400 senior executives at corporations drawn from the BUSINESS WEEK Top 1000. Interviews were conducted Nov. 10-17, 1992, for BUSINESS WEEK by Louis Harris & Associates Inc.



SHOWROOM IN NEW YORK: CEO SMITH CALLS BANKRUPTCY RUMORS RIDICULOUS

GM ISN'T RUNNING ON FUMES—YET

has assets, but it's bleeding cash and could see its debt downgraded

Until recently, it was unthinkable that General Motors Corp., the world's largest industrial company, would ever be mentioned as a candidate for bankruptcy. After all, GM's coffers hold \$110 billion in assets, including \$6.3 billion in cash and marketable securities. That's a big cushion against insolvency. So when GM's huge sales recently sparked rumors that it was considering a Chapter 11 filing, company executives dismissed the notion as ridiculous. "We're the largest company in the world, with lots of assets. We're nowhere near Chapter 11," fumed Chief Executive John F. Smith Jr. For now and the foreseeable future, Smith undoubtedly is correct. But such talk shows how quickly the financial pressure around GM's neck is tightening. The company's underfunded pension liability will widen by \$1.9 billion this year, to about \$11 billion. An accounting charge for retiree health benefits could rise from \$16 billion to \$24 billion out of its reported net income and from its \$4.4 billion in shareholder's equity. First of all, the carmaker, still bleeding cash, may face a downgrade of its long-term debt and short-term borrowings in weeks. Moody's Investors Service, Standard & Poor's, and other raters all have put GM's debt under review.

It is the continuing cash drain from GM's U.S. and Canadian auto operations that worries creditors most. Salomon Brothers Inc. figures the company's 1992 cash flow, after dividend and capital spending obligations, will run a negative \$2.5 billion (chart). GM's Electronic Data Systems data processing unit and its finance and European car operations were profitable in the year's first nine months. But that was more than offset by North American auto losses. Then there was the \$1.1 billion in dividends GM paid stockholders and the \$4.7 billion for capital spending.

QUICK CASH. GM's strategy for stanching the outflow of cash can't go on much longer. To cope, the company this year has replenished its coffers by issuing \$5.1 billion in new common and preference stock. GM has said it plans to begin selling an additional \$1 billion in preference shares within a few weeks. Some analysts believe the sales are GM's attempt to stockpile cash while its credit ratings remain in

place. A downgrade could put a crimp in GM's game, notes PaineWebber Inc. analyst Stephen J. Girsky, by boosting its borrowing costs and limiting its ability to raise new capital.

The ratings downgrade, if it comes, will also hamper General Motors Acceptance Corp., the GM financial arm that funds loans to car buyers and dealers. GMAC has some \$20 billion in short-term IOUs outstanding—mainly in commercial paper. That paper currently holds top credit ratings.

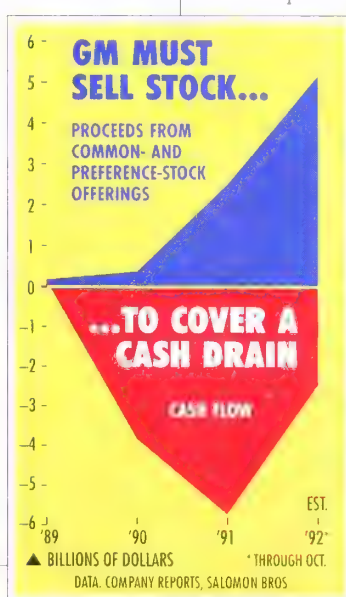
But GMAC looks to be preparing for a ratings downgrade of its own: To increase liquidity, the unit over the past year or so has added some \$5.5 billion in short-term marketable securities and paid for it by selling assets, including \$10.8 billion in consumer car loans. Meanwhile, it is paying more to borrow longer term, while reducing its commercial paper outstanding by \$8 billion this year. To focus on its core GM auto business, GMAC has dropped out of boat and heavy-equipment lending, and on Nov. 18 said it also will stop making new loans to non-GM dealers and car buyers.

NO MORE SURPRISES. Despite the defensive moves, GMAC may not be able to forestall a downgrade. If the credit agencies move, GM would be effectively removed from the commercial paper market, since the Securities & Exchange Commission won't allow money-market funds to buy paper from companies that aren't rated in the top tier by at least two credit agencies. Such funds now buy nearly all of GMAC's paper. The result: GMAC says it would have to sell off more of its auto loans and begin to draw on a \$12.4 billion bank credit line. Worse, all of this would probably knock \$100 million to \$300 million off GMAC's 1993 earnings, cutting 1993 profits to \$1 billion or less, GM says.

A longer-term worry is GM's future obligation to retirees. New accounting rules require many large companies, in-

cluding GM, to write off future liabilities for retirees' health benefits no later than early next year. GM could spread the charge over 20 years, and the \$16 billion to \$24 billion hit won't directly affect cash flows. But it will cut into income and stockholders' equity. As for its widening unfunded pension liabilities, GM doesn't have to make any more payments into its pension fund for now, but may have to eventually.

GM Executive Vice-President William E.



Top of the News

Hoglund swears the company isn't planning any fourth-quarter surprises, such as last year's yearend \$2.8 billion restructuring charge. Nonetheless, GM's efforts to sell an 81.5% stake in National Car Rental System Inc. will likely result in a \$300 million aftertax charge. The expected sale of a 50% stake in Daewoo Motor Co. and a transmission operation will add back \$225 million to the bottom line, however.

The big questions now: When will cost-cutting and improved auto sales

start to move GM back into the black? Analysts figure that GM's slashing already has cut pretax North American auto losses by about half, to \$3.4 billion, in the first nine months of 1992. Smith also has said that GM's North American operations were significantly in the black during October, for the first time in 24 months. More losses are expected in traditionally weak November and December, but Smith promises that the operation will break even, before taxes and interest, next year.

As a result, analysts project that GM in 1993 will make money for the first year since 1989. One major reason: United Auto Workers sources say that the depth of GM's troubles has convinced the union it must cooperate with Smith's cost-cutting.

"This ship is slowly turning," contends PaineWebber's Girsky. True. But Jack Smith must turn it around faster if he wants to quash those rumors about GM's solvency once and for all.

By Kathleen Kerrin in Detroit

TECHNOLOGY

FLAT PANELS: CAN THE U.S. GET BACK INTO THE PICTURE?

A high-tech consortium says yes—and DARPA is willing to bet on it

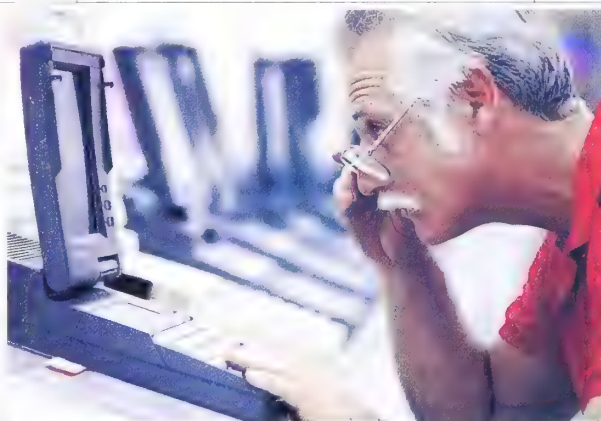
For a glimpse of the future, look no further than the flat-panel screen on the nearest laptop computer. The ultrathin displays already have revolutionized computing. Soon, they may turn up on everything from airplane and auto instrument panels to telephones and high-definition TVs. The trouble is, nearly all of them are made in Japan. And if that continues, flat-panel displays will be yet another depressing tale of a vital U.S.-invented technology that was fumbled away.

This time, though, U.S. companies aren't giving up without a fight. Over the past three years, companies from giant Texas Instruments Inc. to tiny OIS Optical Imaging Systems Inc. have been developing innovative flat-panel systems and components in their labs. This year, a few brave businesses such as Motorola Inc. have committed to large-scale display manufacturing in the U.S. And now, the Pentagon's Defense Advanced Research Projects Agency (DARPA) is joining with industry to form a consortium designed to take a big bite out of Japan's lead. "This is the next step in a long climb back to prominence for the U.S. in flat-panel displays," explains Lance Glasser, director of the Electronic Systems Technology office at DARPA.

DAZZLING DISPLAY. If the U.S. claws its way back, it will signal the triumph of smarts over bucks. By some estimates, Japanese companies have invested up to \$3 billion in factories to make advanced displays. Most of these use so-called active-matrix liquid-crystal technology, where every dot (or pixel) on the screen is controlled by its own transistor. The

color displays are dazzling, but fabricating the millions of transistors is fiendishly difficult. As a result, the panels are limited to less than 20 inches across and are prohibitively expensive—about \$1,500 for a 10-inch laptop screen.

What's more, the Japanese haven't been able to bring the cost down as fast as they expected, says display analyst David E. Mentley of Stanford Resources



SCREEN TEST: CHECKING OUT LAPTOPS IN LOS ANGELES

Inc. "They've been mugged by reality," he says. They also were hurt by a 62.7% tariff imposed last year after a ruling found they were dumping screens in the U.S. below cost. The coalition of U.S. companies that brought the case, however, is in danger of breaking up. U.S. computer makers, who buy the screen, have pressured one group, and one member, OIS, has dropped its complaint.

Japan's woes have helped spur new approaches. While some U.S. efforts use active-matrix technology, Motorola and In Focus Systems Inc. in Tualatin, Ore., plan to build a simpler passive-matrix screen that promises high quality at low-

er cost. Texas Instruments is developing an exotic display that relies on tiny moveable mirrors. And Boise (Idaho) chipmaker Micon Technology Inc. is trying to make screens in which each pixel is lit by its own miniature electron beams. "American companies have world-class technology," says Glasser.

DARPA's consortium will help move that technology from lab to factory. The idea is for companies to identify crucial gaps in their ability to make flat panels, then coordinate R&D to fill those gaps. DARPA plans to throw in at least \$1 million a year, with companies shouldering a larger share as the industry matures. So far, American Telephone & Telegraph, Xerox, the David Sarnoff Research Center, OIS, and Standish Industries, a Wisconsin liquid-crystal display maker, plan to band together.

The climate seems right for the U.S. effort. Electronics manufacturers "are beginning to feel that the display is what sells the product," says Griffith L. Rescove III, president of MRS Technology Inc. in Chelmsford, Mass., which builds display-making tools. "They don't want to be totally dependent on Japanese sources," DARPA's Glasser is convinced that they won't be. Within five years, he predicts, one or two U.S. companies will be in full-scale production of flat-panel displays, with three to five more supplying niche markets. "It's very exciting," adds Robert M. Whitcomb, Commerce Under Secretary for technology. "I think we stand a good chance of getting back into the market."

It's still only a chance, though. "Things are just getting started—it's premature to say there's a resurgence in the U.S. display industry," cautions Steven W. Depp, manager of the entry system technologies laboratory at IBM, which is already making active-matrix displays in Japan in a joint venture with Toshiba. But at least now, the U.S. is fighting back.

By John Carey in Washington, and Gary McWilliams in Boston

BUSH'S WELL-PLACED KICK IN THE TRADE TALKS

History may record that just one day after President Bush lost the election for paying too little attention to economic policy, he miraculously rescued the 108-nation trade negotiations known as the Uruguay Round. By slapping 200% tariffs on French wine in an obscure dispute over animal feeds, Bush suddenly breathed life into talks that had been moribund for more than a year.

Bush's minuscule \$300 million trade reprisal seemed to accomplish what six years of talk and three successive international economic summits could not. That is, it got the European Community negotiating with the U.S. on the pivotal issue of agricultural subsidies. While the entire effort may yet fail to produce a comprehensive trade deal, the Bush Administration's judicious use of the stick-and-carrot approach to negotiations holds some valuable lessons for the next occupant of the White House.

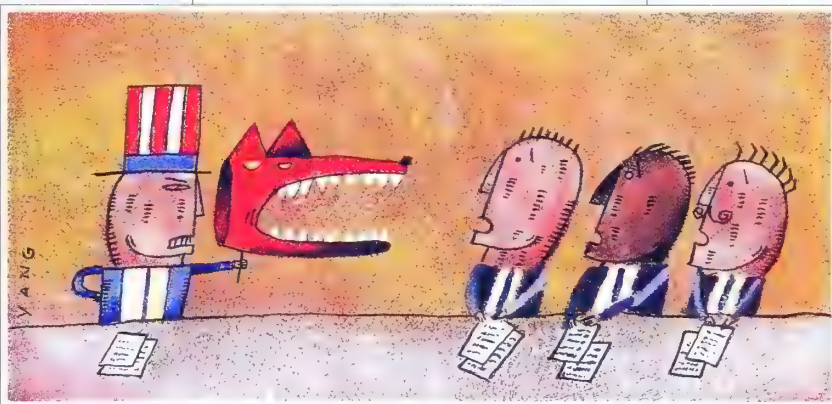
WARNINGS. The chief lesson of the new trade physics: Foreign subsidies or trade barriers tend to remain in place unless acted upon by an outside force, in this case the threat of U.S. retaliation. This was confirmed in 1985 after Congress passed a tough trade law and the success rate for negotiations climbed from one-third to two-thirds, according to an unpublished study by the Institute for International Economics.

Despite constant handwringing by economists who warned that aggressive unilateral action by the U.S. would precipitate a trade war, only 8 of the 67 cases examined in the study resulted in the U.S. following through on its retaliation threat. And just one case brought counter-retaliation—a minor tiff with Europe over pasta, citrus, lemons, and walnuts.

But the IIE study's authors warn against the Riddick Bowe approach as a panacea for stalled trade negotia-

tions. "If you have a clear barrier and a clear objective, this can be an effective tool, but it's a limited means of achieving a limited objective," warns researcher Kimberly A. Elliot.

Nor does every warning of retaliation against foreign barriers work. The U.S. threatened India in 1989 and 1990 with trade sanctions unless it opened its borders to U.S. financial services and investment. India ignored the threat, and the U.S. backed off. De-



spite such occasional lapses, U.S. Trade Representative Carla A. Hills has managed to write the book on prying open markets. Some of the main conclusions from her record:

■ **Pick targets carefully.** Hills used great precision in selecting white Burgundy wines for the brunt of the trade retaliation. France has been the principal foot-dragger on reducing farm subsi-

GATT findings, surrendering the moral high ground and rendering its cries of unfairness ludicrous. "Hills was patient, she lined up the international support she needed, and she made a record of having tried to negotiate," notes I. M. Destler, a University of Maryland political scientist.

■ **Aim for tangible results.** The U.S. engaged Japan in a monumental but largely fruitless three-year talkathon over "structural impediments." The diffuse goals of the talks included overhauling the Japanese distribution system, antitrust enforcement, and corporate structure, and boosting spending on parks and sewers, all while persuading the Japanese to take more vacations from work and school. Not much happened. But when the U.S.

threatened retaliation unless the Japanese lowered barriers to U.S. supercomputers, glass, satellites, wood products, and electrical transformers, Tokyo proved willing to compromise.

■ **Timing counts.** There's always an election coming up in Europe—providing a plausible excuse to postpone reform. In the latest case, the Bush Administration waited until after the French vote on the Maastricht Treaty, a key Parliamentary vote in Britain, and local elections in Germany were out of the way. Then, waiting to announce the sanctions until a day after the election in the U.S.

showed that the Administration wasn't just playing electoral politics.

When it comes to economic policy, Bush's performance will never draw many raves. And fans of Meursault may find themselves choking at the prospect of Lake Country White. But credit the U.S. with leading the world through six successful rounds of trade liberalization talks over nearly 50 years. The record proves that so long as the goal is freer trade and the methods are fair, the White House should keep its boxing gloves handy.

The President's threatened \$300 million trade reprisal was minuscule, but seemed to accomplish what six years of talks and three international economic summits could not

dies within the EC, and the French Agriculture Minister—a shrill critic of U.S. policy—is from the region. In a similar case with China this summer, publishing a detailed and extensive list of targets for U.S. sanctions helped lead to a quick pledge by China to drop barriers against many U.S. imports.

■ **Keep it legal.** The U.S. won two decisions on the current case before a quasijudicial panel under the General Agreement on Tariffs & Trade, the sponsoring body for multinational trade negotiations. The EC ignored the



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NO BED OF ROSES: AS BUSH KNOWS, CLINTON FACES A TUSSELE WITH ENTRENCHED COMMITTEE CHAIRMEN

BUT CAN HE SWING AN AX?

What Clinton plans to cut in the bureaucracy—and what his chances are

On the campaign trail, Bill Clinton promised to cut the federal work force by 100,000 jobs and trim government administrative costs by 3%. Now, though, sources close to the transition team say that Clinton is mulling over a far more dramatic restructuring of the federal bureaucracy, including elimination of some Cabinet departments. **BUSINESS WEEK** has learned that one target is the Energy Dept.

Clinton also may consolidate federal regulation of financial institutions and reorganize the stewardship of federal lands, now handled by several agencies. Says one source close to the Clinton transition: "There's an enormous opportunity for streamlining government at both the Cabinet and sub-Cabinet level."

Unlike Presidents Reagan and Carter, whose efforts sank in Congress, Clinton may find surprisingly strong support on Capitol Hill. But as a weary George Bush might have warned Clinton when they met at the White House on Nov. 18, the President-elect still must tangle with committee chairmen whose power is based in part on the size of the bureaucracies they oversee.

Clinton shouldn't shrink from the fight. Like a badly run corporation, government has failed to adapt to changing times. The price of poorly managed, duplicative efforts is staggering—and not

just in billions of wasted tax dollars. "The cost in terms of credibility is enormous," says James Thurber, American University professor of government. "The more programs you have that seem worthless, the more people distrust government."

That's why Clinton has Energy in his sights. It spends half its budget developing and building nuclear weapons, and much of the rest trying to clean up the mess it has made. Other functions are simply outdated. Fifty years ago, the Rural Electrification Administration brought badly needed power to rural America. Now it brings cheap electricity to wealthy suburbs.

In a reorganization, scaled-down weapons production could be shifted to the Pentagon. Civilian energy research could be largely privatized or shipped off to the National Science Foundation.

NINE IN ONE. That leaves the cleanup work, which logically belongs in a new Environment Dept. It would mesh well with the Clintonites' plans for rationalizing the management of public lands. Bureaucratic infighting is rampant among the Bureau of Land Management, the Bureau of Reclamation, the Forest Service, the Park Service, and the U.S. Army Corps of Engineers. One solution: combine them into a single department. Clinton could add the Environmental

Protection Agency and other offices that study the environment and create a single Environment & Natural Resources Dept. That would cut hundreds of millions of dollars worth of overhead and encourage sensible solutions to complex land- and environmental disputes.

The President-elect may also unify the nine agencies that oversee financial institutions. As the businesses, banks and securities firms become more intertwined, it makes less sense to maintain separate regulatory schemes. At the least, all depository institutions could come under the purview of a single federal regulator.

Reorganizing those agencies is only a small part of the job, though. For now

the Clintonites seem disinclined to tackle some of the biggest sacred cows. Perhaps the largest is the Agriculture Dept., which spends some \$46 billion a year. In 1940, there were more than 6 million farms in the U.S. and 98,000 USDA employees. Today, there are 2 million farms but 128,600 employees to watch over them.

Many of the department's programs, such as subsidies that distort prices and hurt both consumers and small farmers, could be eliminated. The rest, along with other agencies. For example, food stamps and other "feeding programs" could go to the Health & Human Services Dept.—or even to a new agency that could handle all federal assistance.

MOVE QUICKLY? If Clinton tries to streamline the government, he has two very important choices to make: How big a job does he want to take on in one bite? And how quickly should he move? Carter's ill-prepared assault on federal water projects wrecked any chance of a serious reorganization during his tenure.

The new President may have it slightly easier. Key members of Congress, from conservatives such as Senator William V. Roth Jr. (R-Del.) to moderates such as House Budget Committee Chairman Leon E. Panetta (D-Calif.) and liberals such as House Government Operations Committee Chairman John Conyers Jr. (D-Mich.), favor reform.

Fixing the economy remains Clinton's top priority. But he could save money while improving delivery of services by radically changing the way government does business. It would mean a nasty fight with some of Congress' old buddies, but the rewards could be sweet.

By Howard Gleckman in Washington

ELI SEGAL: SUNUNU HE AIN'T

Entrepreneur, nice guy—and a prime candidate for Chief of Staff

Eli J. Segal sits down to breakfast in the café of Little Rock's Excelsior Hotel and expounds on his favorite subject. "It won't be hard to figure out how to make Bill Clinton's Presidency work," says Segal, the transition team's newly named chief financial officer. "Clinton believes in horizontal, rather than vertical, management. He likes a lot of access and a lot of consultation."

If Segal sounds like a management guru who wandered into a roost of Arizona politicians, he can be forgiven. A Boston entrepreneur and longtime Democratic fundraiser, Chief of Staff Segal brought discipline to the free-form Clinton campaign. Says Clinton aide Samuel Berger: "Eli was the glue that held Little Rock together." Segal did his job so well that Clinton rewarded him with a key transition post.

One of the few corporate types in Clinton's inner circle, Segal was instrumental in persuading the candidate to court business. Clinton won a slew of CEO endorsements, a huge help in his efforts to cast himself as a market-oriented centrist. John H. Bryan, CEO of Sara Lee Corp. and a big Clinton backer, especially liked what Segal had to say about the North American Free Trade Agreement. CEOs saw the issue as a litmus test for Clinton. "He was very positive on it," says Bryan.

SILKY INTRIGUE. Segal hardly fits the role of power broker. There's no cigar, no hyperdrive personality. His soft-shoe style won Segal, 49, enormous affection inside the campaign. His "style is very effective," says Richard G. Stearns, a Massachusetts Superior Court justice and Clinton's former Oxford roommate. "You like him so much, you don't want to disappoint him."

But don't underestimate this nice guy. Segal is capable of silky political intrigue. Just ask Los Angeles lawyer Mickey Kantor. When the hard-charging

Kantor made a bid for leadership of the transition, Clinton's political staff—many of them selected by Segal—rebelled. Kantor wound up with the job of organizing Clinton's December economic summit, while Segal and Warren Christopher got top transition posts.

Not surprisingly, Segal is now rumored for a plum Administration job, even Chief of Staff. Segal "would be excellent in any White House management position," says former Democratic

ton. He made his fortune in the toy and jigsaw-puzzle business, running American Publishing Co. in suburban Boston. Segal sold his venture in 1986, for a profit estimated at several million dollars. He now runs B&P Publishing Co., a privately held direct marketer with annual sales of some \$15 million. B&P sells games through its popular *Bits & Pieces* catalog. Segal also owns *Games* magazine, a marginally profitable publication for puzzle junkies.

IN TROUBLE. Segal's career got a key boost from Miles L. Rubin, a 65-year-old investor who took a shine to Segal during the 1972 campaign. After McGovern's loss, Rubin invited Segal to join Pioneer Systems Inc., a defense company that Rubin headed.

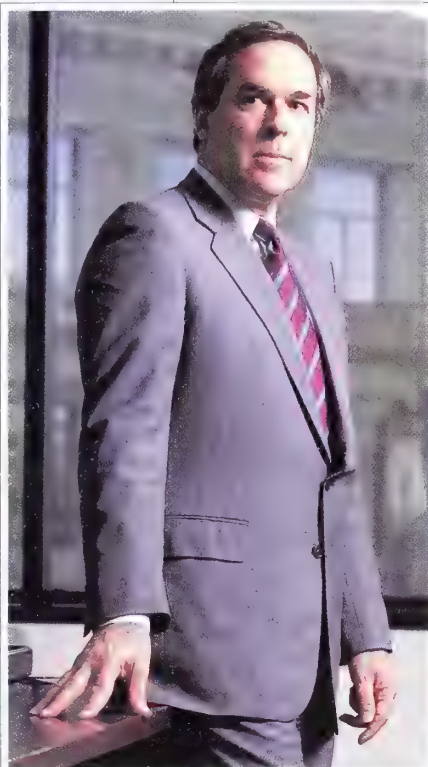
Pioneer's business record has its blemishes. In the 1980s, Pioneer was in legal trouble for allegedly billing a government agency falsely. Pioneer settled the suit for \$105,000 in 1988. Segal, who in 1981 resigned as president of Vogart Crafts Corp., another Pioneer subsidiary, continued to serve on Pioneer's board through the 1980s. But he disclaims intimate knowledge of the legal problems. The company's defense operations have since been sold to a French outfit. After the sale, Vogart was Pioneer's only operating unit until it filed for Chapter 11 in 1990.

The Rubin-Segal bond endures. Segal helped hire Rubin's mail-order company, National Direct Marketing Corp., to raise funds for Clinton. Rubin says he raised some \$13 million. Says Rubin of his protégé: "Eli helps people get the most out of themselves. He's a leader of men."

Segal now must get the most out of big Democratic donors. He's trying to rustle up about \$3 million in private money to add to the \$3.5 million in federal funds appropriated for the transition. Next, Segal says he'll oversee the effort to create an "aggressive legislative package to submit to Governor Clinton for the day he is inaugurated."

So what is the transition like? "It's a lot like a chess game," says puzzle magazine Segal. And in this game, some nice guys manage to finish first.

By Douglas Harbrecht in Little Rock and Mark Maremont and Geoffrey Smith in Boston



RESUME: ELI J. SEGAL

BORN

1943, Brooklyn, N.Y.

EDUCATION

BA, Brandeis, 1964; JD, Michigan, 1967

EMPLOYMENT

1973-75: Executive, Pioneer Systems, a New York City defense and crafts company

1975-81: President, Vogart Crafts, a Pioneer subsidiary

1981-86: Owner, American Publishing, a jigsaw-puzzle maker and owner of *Bits & Pieces* mail-order game catalog; puzzle business sold in 1986

1986-present: Owner, B&P Publishing, publisher of *Bits & Pieces* and *Games* magazine. Annual sales: About \$15 million

OFF-HOURS PURSUIT

Skiing in Vail, Colo.

DATA. BW

Presidential candidate Gary Hart, a great friend. "Eli is very shrewd and even-tempered, which is extraordinary in this line of work."

Segal is no political novice. He toiled for George McGovern in 1972, Morris Udall in 1976, and Hart in 1984 and 1988. He first met Clinton in the summer of 1969, when a group of Democratic Young Turks gathered on Martha's Vineyard to discuss a new path for their troubled party. But only within the past couple of years did Segal figure the young Arkansan for a future President. Friends say Segal started telling them: "Watch Clinton, he's a comer."

Segal's passion for politics is fueled by lucrative business ventures back in Bos-

Commentary/by Kathleen Madigan

FOUL BALL: MAJOR LEAGUE BASEBALL'S MONOPOLY

Once upon a time, goes the convenient myth, baseball was a sport, just a diversion, hardly a for-profit enterprise. Doubters of this rose-tinted history are referred to the U.S. Supreme Court's 1922 ruling that professional baseball is "an amusement," not a business dependent on interstate trade for its viability. Ever since that curious bit of jurisprudence, Major League Baseball has been exempted from federal antitrust laws. In other words, it's a legal monopoly.

In the era of the \$7 million infielder and the \$500 million cable-TV deal, the notion that baseball is not a business seems quaint. Indeed, a later Supreme Court labeled the 1922 decision "illogical." The antitrust exemption still stands, however. And freed from rival leagues and federal oversight, MLB's owners have served no interests but their own.

Change now may be lurking outside the owners' boxes. On Dec. 10, the Senate's antitrust subcommittee will start hearings on the baseball exemption. Senator Connie Mack (R-Fla.), the namesake grandson of the legendary owner-manager and an advocate of eliminating baseball's distinction, admits that any rule change is "an uphill battle." But by their own recent actions, MLB's owners may have hastened the end of their protected status.

XENOPHOBIA. That's because an anti-trust exemption is an implied contract: The federal government suspends its usual bias against monopolies as long as the monopoly in question serves the public good. Major League Baseball, by this reasoning, can operate unfettered as long as it satisfies America's appetite for the national pastime. But by their high-handed treatment of players, fans, host cities, and their own commissioner, the owners have abused their privilege.

At the heart of the problem is base-

ball's degree of exclusivity, which penalizes millions of fans. Although many cities, notably Buffalo and St. Petersburg, are clamoring for a home team, MLB doles out new franchises less often than Oakland Athletics' ace relief pitcher Dennis Eckersley blows a game. Moreover, owners can veto any team's plan to move, and they can keep television stations from airing games that would compete head-to-head with other baseball broadcasts.



VETO OF THE GIANTS DEAL LEAVES THE SUNCOAST DOME EMPTY AND ST. PETE IN A SNIT

Two recent franchise sales show plainly that MLB's owners believe they are accountable only to themselves—not the nation. When Seattle Mariners owner Jeffrey Smulyan wanted to sell the team to a group of investors led by Nintendo Co. executives Hiroshi Yamauchi and Minoru Arakawa, then-Commissioner Fay Vincent muttered about preserving the integrity of the American game. He masked his xenophobia by arguing the issue was ensuring "a guarantee of local control." But if local control is so important, then how can Tampa resident George Stein-

brenner own the New York Yankees?

In the end, the Nintendo group shuffled their ownership shares so that Yamauchi put up the bulk of the money but held a minority stake. Backed by Nintendo, the Mariners stayed in Seattle, but the elaborate camouflaging of Nintendo's investment did little more than let the owners keep the dread overseas presence at arm's length.

GIANT LETDOWN. San Francisco also will be keeping its ball club, whether it

wants to or not. After Giants owner Bob Lurie worked out a deal to move his boys of summer out of chilly Candlestick Park and down to the climate-controlled Suncoast Dome in St. Petersburg, the National League owners nixed the deal. No matter that Bay Area voters four times turned down proposals to build a better stadium for the Giants or that St. Pete desperately wants big-league baseball or that the Florida group was the high bidder. By

junking the sale, the owners signaled that franchise stability—that is, maintaining their monopoly—is more important than the fans' wishes. As Florida's Mack puts it: "How can keeping a franchise in a money-losing market be good for baseball?" If Congress lifted the exemption, it would be easier for baseball-hungry cities to lure a team that's poorly supported elsewhere.

Major League Baseball argues that its special status has worked for 70 years and needs no fixing. But the owners ought to remember that competition confers its own benefits. Way back in 1903, the National League finally recognized that the upstart American League wasn't going away. Rather than try to kill off its rival, the National League agreed to send out its champions, the Pittsburgh Pirates, against the Boston Red Sox, the AL's best. The name the owners dreamed up for the clash: The World Series.

Owners have abused their privileges and may have hastened upcoming Senate hearings on their status



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YOU ARE RELAXED. YOU ARE CONTENT. YOU ARE APPROACHING 'TEA MIND'

Republic of Tea strives mightily to sell its beverage as lifestyle

The founders of Banana Republic Inc. are back in business. Mel and Patricia Ziegler, the couple who cashed in on the 1980s craze for khaki clothes with safari-theme catalogs and stores, think they're on to a new trend for the 1990s: tea.

Convinced that most Americans have never tasted a good cup of tea, the fortysomething Zieglers, along with partner Bill Rosenzweig, 33, are out to convert the coffee-drinking public. To do it, they've launched Republic of Tea. It markets 21 types of natural tea through department stores and gourmet shops across the country. Packaged in cylindrical tins decorated with whimsical watercolors, the full-leaf and herbal teas carry such names as Mango Ceylon, Tea of Inquiry, and Sky Between the Branches.

The leaves aren't cheap: Republic's teas, sold loose or bagged in round "pillows," cost from \$6 to \$16 for a 60-cup canister, depending on variety. That's three to five times as expensive as Lipton's. But Neiman Marcus, Macy's, Bloomingdale's, and Nature Co. have all signed on. "The packaging is gorgeous," gushes Jennifer A. Panchenko, who signed Republic of Tea for Dayton Hudson Department Store Co. "The whole line is very '90s."

LEAF CHIEF. Exactly, says Rosenzweig: "Tea is the wine of the '90s." Credit a confluence of social trends, he says, including a new interest in Eastern culture and a focus on home, hearth, and health. But more than anything else, Republic believes that Americans want to slow down the frantic pace of their lives. So just as the partners created an image of action and adventure with Banana Republic, they want customers to associate their products with what Mel Ziegler calls "tea mind."

That's why the motto is "Sip by Sip, not Gulp by Gulp." Ziegler, who is not Republic's chairman but its minister of leaves, says: "Tea is as much a metaphor for life as it is a product." Wife

Patricia Ziegler, who created the company's look, is minister of enchantment. Chief Executive Rosenzweig, a former marketing executive at Nakamichi audio company, is minister of progress. And Bruce Katz, the founder of Rockport shoes, who provided Republic of Tea's seed capital of \$250,000, is minister of big ideas. The company is based—no surprise here—in Marin County, Calif.,

Bill Rosenzweig, the minister of progress, says: 'Tea is the wine of the '90s'



across the Golden Gate Bridge from San Francisco.

Although retailers say that it is too early to get a handle on the 10-month-old company's sales, competitors say that they have been wowed by Republic's introduction. Indeed, Mo Siegel, founder of rival Celestial Seasonings Inc., already has expressed an interest in buying the company. "I like the market

niche of being the elite of the elite," he says.

Ultimately, Republic of Tea's success will hinge on whether it can persuade consumers to give tea a try—and then make a habit of it. The tea market, dominated by Lipton, has been flat, at \$1 billion, for years. The specialty tea market, which includes herbal teas, has doubled in 10 years—starting from a tiny base. It now brings in about \$250 million in the U.S. annually.

CAFFEINE CUT. While Republic's partners frequently equate sipping good tea with drinking fine wine, neighboring Napa Valley isn't exactly in a panic. Although alcohol consumption is down, not even Ziegler expects a big switch from wine to tea.

It's the \$3.5 billion coffee market that Republic is really after. "If we got two or three [market-share percentage] points from coffee, we would become the dominant specialty tea company," Ziegler says. The company hopes to cash in on consumers' efforts to cut back on caffeine: Tea contains far less than coffee. So far, the company says, it is on track to sell \$500,000 worth of tea by next June and to build up to \$2.1 million in 1994.

That assumes success for Republic's efforts to "educate" consumers about tea. Already Currency Doubleday has published a book written by the partners about how Republic was built. (Its \$100,000 book advance helped finance product development.) In October, the first Republic of Tea catalog was released, offering teapot books of philosophy from the "Tea Mind Library," and even "tea" shirts silkscreened with such phrases as "I Want What I Have." Says tea importer Mike J. Spillane of G.S. Harlow Co.: "I don't think they can fail on this one, unless they make it cultish to the point where people think it's a little too much off the wall."

Or too much of a fad. Banana Republic, which the Zieglers sold to The Gap Inc. in 1985, failed to adapt when the Indiana Jones look waned. Only recently has it become profitable again, sans Zieglers, with an upscale-Gap look. Republic of Tea will test the partners' ability not only to exploit social trends but also to keep them with them.

By Russell Mitchell in Marin County, Calif., with Sandra D. Atchison in Denver

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In Business This Week

EDITED BY DEIDRE A. DEPKE

IS CLINTON A BUY?

Stocks do better during Republican Administrations, right? Think again. Since 1889, the Democrats have held the White House for 44 years. In those years, the S&P 500 gained an average 7.8% annually. During the Republicans' 60 years in Washington, the climb was 7.6%. Here are the stock market's favorite, and not-so-favorite, Presidents:

Years	Party	Administration	Change in S&P 500
1933-36	D	Roosevelt	150.1%
1925-28	R	Coolidge	127.9
1953-56	R	Eisenhower	78.3
1929-32	R	Hoover	-70.5
1937-40	D	Roosevelt	-38.3
1917-20	D	Wilson	-30.5

DATA: STANDARD & POOR'S CORP

ALLANTE GOES TO THE BIG GARAGE IN THE SKY

► General Motors on Nov. 18 announced that it's hitting the brakes on Cadillac's Allante. Sales of the Allante have been hurt by a steep sticker price, less-than-perfect quality, and weak resale values. The \$61,675 two-seater convertible, introduced in 1986, peaked in 1990 at 3,407 cars sold. Moreover, production costs are high, since the Allante's body is built in Italy, then flown to Detroit to be joined to a Cadillac chassis. When production ends later this model year, idled Allante workers will transfer to other Cadillac lines. Some 62 workers build 13 Allantes a day.

CHRYSLER'S FINANCE ARM GRABS CASH

► Across town, Chrysler's cash-strapped finance subsidiary said on Nov. 17 that it will get a \$2 billion infusion

by selling its consumer and inventory financing business to NationsBank. Chrysler paid \$405 million for the unit in 1985. The sale price approximates the business' current book value.

Chrysler Financial says it will use the proceeds to pay down expensive bank credit lines that have pinched earnings in recent quarters. The company has been shut out of capital markets since its credit rating skidded to junk-bond status last year. The extra cash will allow the finance arm to continue the important business of bankrolling dealers' wholesale purchases.

MARRIOTT HAS A LOT OF PEOPLE UPSET

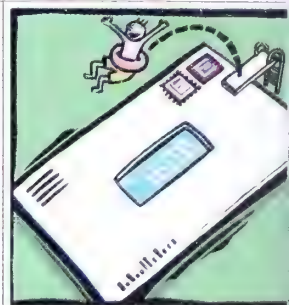
► Marriott's controversial plan to spin off its hotel-management business ignited a furor among bondholders, who resent the prospect of being saddled with the company's highly leveraged real estate holdings. And now Marriott's advisers are beginning to check out of the deal as well: On Nov. 17, Merrill Lynch withdrew as an adviser on the plan.

Merrill says it didn't drop out under pressure from bondholders. But the firm's move comes a week after First National Bank of Chicago resigned as trustee for the hotelier's senior debt, citing its duty to bondholders. A Marriott spokesman says the

CHLORINE IN EXCELSIS DEO

Can't stand to roam packed shopping malls looking for holiday gifts? Does the stuff in your stack of mail-order catalogs all look the same? Maybe Gemini Fiberglass Products in Denver can help. This 34-year-old company's idea for a fresh, hassle-free gift: a mail-order swimming pool.

Made of fiberglass, these do-it-yourself pools come in a variety of sizes, starting with a model 4 feet deep and 15 feet across, which can be built above or below ground. Prices range from \$3,000 to \$25,000. The pools are shipped in sections, which Gemini President Bob Langkamp swears can be installed in two to three days, with "the tools you already have in your toolbox." You think swimming pools don't have a Christmas feel to them? No problem, says Langkamp. Because fiberglass won't crack in freezing weather, Gemini pools can hold water year round. Makes them perfect for ice-skating.



hotelier is "going forward as planned" with the restructuring, which would result in the company trading as two separate stocks by next summer.

A MASSIVE DEAL FOR CRAY

► Cray Research, playing catch-up in the market for massively parallel supercomputers, said on Nov. 16 that it has signed a deal to sell its new T3D computer to NASA's Jet Propulsion Lab. No price has been set, though JPL will probably win a big discount for helping Cray with T3D software development. Cray recently signed similar deals

with two Energy Dept. labs. Cray, which has yet to win a sale for the T3D from a commercial customer, says it hopes to announce such a "real order" by yearend. Cray rivals, including Intel and Thinking Machines, have already cracked the commercial market with their massive parallel computers.

MANY ARE CHOOSING ANOTHER WAY TO GIVE

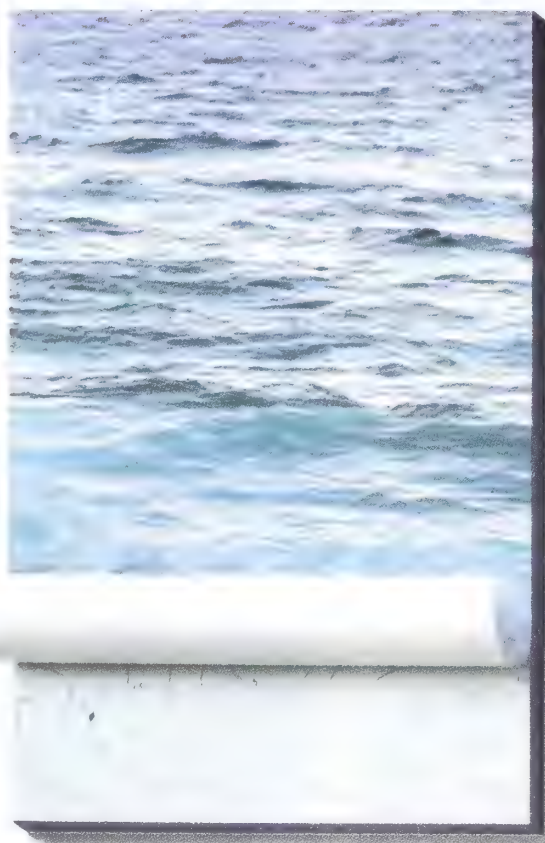
► Many workers have found there is another way to the United Way. Employee contributions to other charities than raise funds in the workplace have increased more than fivefold in the past 10 years. United Way workplace donations, though much larger than their totals, have risen at a slower pace, says a study by the National Committee for Responsive Philanthropy.

The group found that workplace contributions to alternative funds increased to \$3 million in 1992, from \$56 million in 1982. That compares with \$2.9 billion for United Way, up from \$1.6 billion a decade ago. There are 164 alternative funds, which specialize in charities devoted to health, women, the arts, and the environment.



Exploring the uses of derivatives should be satisfying, not mystifying.

Derivatives don't make risk disappear, but they do make it possible to exchange a risk you'd rather not take for one you're more willing to accept. Options, swaps, and other derivatives are quite simple in essence, but since they're so versatile, evaluating their various uses can be complex. That's especially true with newer derivatives linked to commodity and equity indices. But it's not our style to magnify complexity. Our success has always been based on helping clients think through every situation fully and clearly. Then we draw on the technical resources of our global network to design the specific tactic that fits your particular strategy. By taking the mystery out of derivatives, we make it easier to take advantage of these important financial tools. It's a key reason we've become a leader in the full range of risk management products.



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PC Computing, August 1992

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PC Week, June 22, 1992

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LABOR'S STRATEGY WITH CLINTON: TAKE IT SLOW

After more than a decade in the wilderness, organized labor is looking across the river—and seeing a vista that falls short of the Promised Land. The election of Bill Clinton finally gives unions a chance to make some headway on their long-frustrated legislative agenda. But the unions' strategy for dealing with a moderate Democratic President from a right-to-work state is to take it slow. For now, labor leaders have pared their wish list down to the bare essentials.

At a postelection AFL-CIO Executive Council meeting, union residents agreed to a relatively modest program made up of proposals that Clinton has endorsed. Unions also agreed to funnel policy and personnel ideas through the federation. "We don't want to be in a position where hundreds of demands from our side are being thrown at him, and nothing gets done," says AFL-CIO lobbyist Bill Cunningham. Unions aren't pushing any candidate hard for Labor Secretary, though they expect to be consulted about the job. Names circulating in labor circles include Democratic Party official Alexis Herman and Transportation Communications Union Vice-President Jack F. Otero.

LOWBALL PRICE? Labor and Clinton are in general agreement on the incoming Administration's top priority: an economic recovery program including job-creating infrastructure investment. Unions consider Clinton's \$20 billion-a-year price too modest but realize the deficit prevents anything bigger. Also high on the AFL-CIO list is legislation, vetoed by President Bush, mandating family leave. Blessed with overwhelming Democratic support, the bill could be the first to hit Clinton's desk. And unions support health-care reform, though arguments loom over the specifics.

What's missing? The labor-law issues that used to dominate the legislative efforts of the AFL-CIO's—and drive business crazy. For now, unions are pushing only a measure preventing

employers from permanently replacing striking workers.

Other efforts are on hold—for the time being. Unions are backing off on a proposal to ban state right-to-work laws. Nor are they pushing indexing the minimum wage to inflation or boosting penalties on employers who endanger worker safety. Unions are even keeping a low profile on the North American Free Trade Agreement, which Clinton backs, though labor will fight the pact when it comes up for approval.

Labor's reluctance to push its agenda right away is tactical.

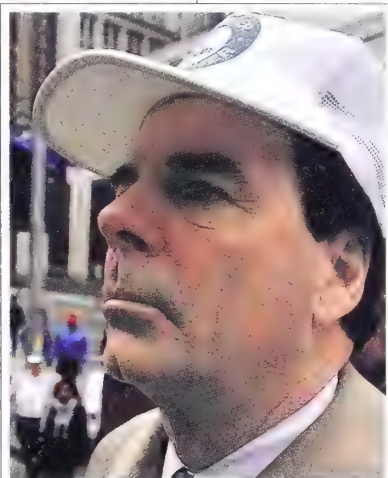
They're so happy to have a Democrat in the White House that they're willing to cut him some slack. They recognize that Clinton is trying to forge ties with business and that he is chary of being seen as too liberal. But they also believe that the President-elect owes them. Labor's political arm delivered 60% of union households for Clinton. "I'm not naive enough to think that Clinton will do everything I want," says Jack Sheinkman, president of the Amalgamated Clothing & Textile Workers Union, "but I feel very positive about the change in climate."

Public employee unions are expecting a more direct payoff for the early backing they gave Clinton in the primaries. Officials of the American Federation of State, County & Municipal Employees expect that the ties that President Gerald W. McEntee

forged with Clinton will pay off when the White House considers aid to state and local governments, infrastructure spending, and the impact of medicaid spending on state budgets. "We'll have the opportunity to be heard," says one insider.

After the long Republican freeze-out, just being heard is welcome to labor. And to enjoy good relations with a new occupant of the White House, labor seems ready to keep its demands pent up—at least for a while.

By Susan B. Garland



MCENTEE: UNIONS CAN BE PATIENT

CAPITAL WRAPUP

THE HOUSE

No one knows just what the 110 new members of the House will be like. But their sheer numbers are giving leaders grief as they try to work out committee assignments for the 103rd Congress. Defeats and retirements have left many panels decimated. The powerful Appropriations and Ways & Means Committees both lost about a third of their members. In the most extreme case, the Africa subcommittee of Foreign Affairs lost every member permanently assigned Democrat.

Filling Appropriations and Ways & Means slots will be easy, though nearly all will go not to first-termers but to

experienced lawmakers seeking better assignments. The House Steering & Policy Committee, which is working on assignments, may also recommend shrinking these megacommittees a bit. Many of the freshmen are making the Steering & Policy Committee's job a bit easier by requesting seats on such traditionally undesirable panels as Small Business and Education & Labor.

But the Banking Committee remains a major trouble spot. Bailouts and scandals have given it a reputation as a high-risk, low-gain assignment. Five of its seven subcommittee chairmen retired or lost, and many of its surviving members are likely to move on to more rewarding committees.

DIRECTORS

Vernon E. Jordan Jr., chairman of Bill Clinton's transition team, has taken flak for serving on 11 corporate boards. But little notice has been given to the fact that his wife, Ann D. Jordan, is nearly as busy a director. She's on five boards: Primerica, Johnson & Johnson, Capital Cities/ABC, National Health Laboratories, and Hechinger Co. Her directors' fees last year could have totaled \$196,000 if she attended all meetings, in addition to her husband's potential fees of nearly \$500,000. Vernon Jordan has taken leave from the boards and from his law firm, Akin, Gump, Hauer & Feld.



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DOUBTS ABOUT GPA'S FUTURE MAY BE MORE THAN BLARNEY

Media hysteria says the high-flying aircraft-leasing company. But the bankers are getting anxious

It was only six months ago when GPA Group Plc's top managers saw a pot of gold at the end of the rainbow. The Shannon (Ireland) upstarts, led by founder and Chairman Tony Ryan, had used financial ingenuity and a little Irish luck to claw their way to the top of a fiercely competitive industry, building the world's biggest aircraft-leasing concern. If their worldwide initial public offering had gone as planned in June, a company that started with a \$50,000 loan 17 years ago would be worth \$3 billion. And they would all be millionaires.

Things didn't turn out that way. Instead, the IPO flopped, victim of a decline in world air traffic, a rising number of airline mergers and bankruptcies, and a looming glut of planes. Now, GPA is fighting for its life. It needs \$1.1 billion

to meet annual debt repayments and \$2.7 billion more to pay for aircraft orders coming due this year and next.

The situation is coming to a head. On Nov. 23, some 100 bankers holding \$3 billion in GPA loans will gather in London to decide the company's fate. One London banker familiar with GPA's condition says that unless it negotiates more favorable deals with aircraft manufacturers and persuades its banks to postpone \$900 million in principal repayments over the next two years, "the company's future is in grave doubt."

MONEYBAGS? Sheer nonsense, says GPA. Deputy Chairman Maurice A. Foley blames "erroneous reports in the media" for GPA's inability to obtain financing. GPA insists its leasing operations, which account for half the company's income,

are still making money. Furthermore, GPA says it has \$670 million in cash and about \$350 million in annual lease revenue. But chief strategist Ken Holden concedes that "the core of our problem is finding the funds to pay for airplanes on order over the next two years."

It's an ignoble position for a highflier whose innovative financing scheme changed the face of the aircraft industry. By providing leases, pilots, and maintenance, GPA provided one-stop shopping to fledgling carriers in such Third World countries as China, India, and Mexico. They could acquire modern aircraft in months rather than the years it once took with conventional financing.

By the mid-1980s, Ryan's company had won massive cash infusions from private holders Air Canada, Gener-

GPA'S FAST AND BUMPY FLIGHT

1975 Irishman Tony Ryan borrows \$50,000 to start GPA as a broker of used planes

1985 Assets reach \$400 million, after GPA attracts such big-name investors as General Electric Capital and Prudential Insurance

1986 High-growth strategy calls for \$4 billion in assets and ownership of 300 planes in five years

1988 Orders 70 Boeing aircraft. Citicorp and 11 other banks finance \$1.5 billion of the deal



1989 On a spree, orders 308 aircraft for \$17 billion

1990 Prolonged downturn hits civil aviation industry

1992 GPA plans \$1 billion global initial public offering is canceled in June when investors fail to go. Syndicate of 100 banks agrees to meet Nov. 23 to decide GPA's fate

DATA: BW

Electric Capital, Prudential Insurance, and several Japanese banks, and it boasted assets of \$400 million. The company grew even faster after Ryan branched out from lease financing into selling preleased aircraft to private investors. In the fiscal year ending last year, GPA showed record profits of \$268 million from a fleet of 442 aircraft leased to 109 airlines in 48 countries.

But there were already warning signals. The recession in the world airline industry threatened GPA's success formula. The very nature of its business—ordering aircraft on spec to get a discount and then selling planes at full market value—was giving potential investors the willies. And some of GPA's customers, including bankrupt America West Airlines Inc., were on the rocks.

FLACK ATTACK. These uncertainties doomed GPA's plan for an IPO. And the doubts raised when the IPO bombed quickly infected GPA's lenders. To regroup, company officials are aiming a public-relations blitz at bankers, suppliers, and the financial press, insisting that the business is sound. GPA says that in September, it leased a record 40 aircraft. It has only 6 un-

leased planes, down from 14 in June. And GPA even appears to have taken the recent collapse of Brazilian airline VASP in stride. Of 13 planes that GPA will repossess, six are committed.

But brushfires keep breaking out. The company recently shelved plans to raise \$350 million in additional equity funds from large shareholders such as Aer Lingus and Air Canada, themselves financially ailing. GPA also canceled plans to raise \$750 million through the sale of debt securities backed by 18 aircraft. And credit-rating agencies have downgraded GPA's debt to speculative levels.

The financial uncertainty has holders of GPA securities and debt looking for an escape hatch. Steven F. Udvar-Hazy, chief executive of rival International Lease Finance Corp., says he has been "inundated" with offers by investors who are desperate to unload GPA paper. GPA's publicly traded bonds now sell for 65¢ on the dollar, vs. 95¢ just a few months ago.

There's an element of personal resentment operating, too. Bad feelings still fester between GPA and the investment community in London and New York over the IPO bust. Ryan apparently displayed such temper, says one banker, that "we thought he was going to get physical." Other bankers

say GPA stepped on too many toes in the past. A corporate-finance expert in a major London bank says he took a financing idea to GPA two years ago, only to find out a month later that GPA had taken the idea as its own. Says Deputy Chairman Foley: "If that's what people say, that's what they say." One of Ryan's closest advisers admits: "Tony Ryan is not a cuddly personality. Successful entrepreneurs rarely are."

IN A TAILSPIN. The turbulence rocking the company is making a lot of people airsick. The syndicate of 100 banks is well-secured with planes, but numerous corporate shareholders and unsecured creditors aren't protected. And because GPA has commitments or options on 10% of worldwide commercial-aircraft production, the shock waves if GPA sought refuge in the courts would hit all the manufacturers—Boeing, Airbus, and McDonnell Douglas. "It doesn't do anybody any good to have extra airplanes sitting on the ground," says Ernest "Tex" Boullion, a former Boeing Co. executive who now heads aircraft lessor Boullion Aviation Services. A chain reaction would also hit like a ton of bricks in Japan, where one-third of GPA's bank debt is held.

Sources close to the negotiations say the prospect of a major meltdown has some bankers leaning toward a postponement of principal payments. But others are playing hardball by asking GPA to cancel additional aircraft orders. Says one Japanese banker: "They'll get no new money from us. I recommend they cancel the aircraft that can be canceled."

And that's a word that makes GPA officials choke. Pressured by bankers, they have already reluctantly walked away from a few orders, but mostly they've stretched out their delivery schedule. To cancel more, GPA might endanger \$850 million in downpayments. Even worse, Boeing Executive Vice-President Richard R. Albrecht says that "under certain circumstances" GPA could lose the volume discounts of up to 30% that are key to GPA's future profits and growth.

That presents GPA with a conundrum: Unless it further reduces its order book, it can't get financing for new aircraft. But without new aircraft, GPA will shrink. Facing this predicament, GPA's executives will soon cram into a room with bankers to negotiate their fate. If the banks agree to give the company breathing room, it would have several months to complete the restructuring, but GPA would emerge much smaller. Could it be that the pot at the end of the rainbow is sometimes filled with fool's gold?

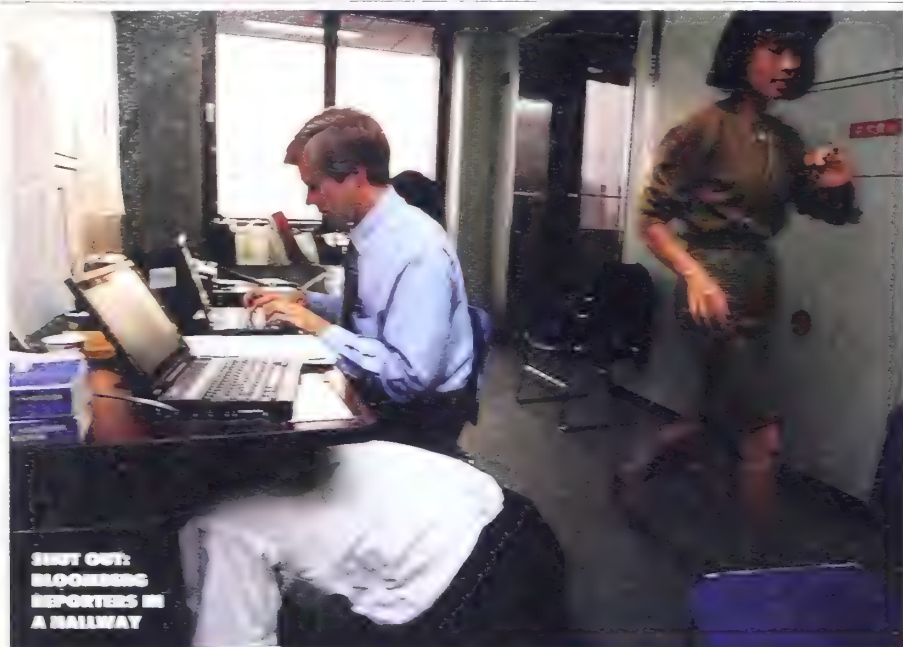
By Paula Dwyer in London, with Dori Jones Yang in Seattle and bureau reports



'Tony Ryan is not a cuddly personality,' says a close adviser. 'Successful entrepreneurs rarely are'

HOW DO YOU SAY 'SCOOPED AGAIN' IN JAPANESE?

Camel-like media diets are still hooding foreign financial reporters



SHIFT OUT:
BLOOMBERG
REPORTERS IN
A HALLWAY

HOW JAPAN BOXES IN THE FOREIGN PRESS

- ▶ Foreign wire services face delays in getting corporate earnings at the Tokyo Stock Exchange
- ▶ No foreign press allowed in the Newspaper Publishers & Editors Assn., a requirement for membership at most Japanese press clubs
- ▶ AP and Reuters are the only foreign members of the Foreign Ministry Press Club, the only press group to admit any foreigners
- ▶ The foreign press is barred from many background briefings at key Japanese ministries

CELEA 200

In Japan, the foreign press is often treated like a second-class citizen. It is not invited to the most important meetings, and it is often excluded from the most important news sources. This is not to say that the Japanese press is not free, but it is free in a very different sense than the press in the United States. In Japan, the press is free to report on what it wants, but it is not free to report on what it wants to report on. This is a result of the Japanese media's close relationship with the government and the business community. The Japanese media is often seen as a part of the establishment, and it is often accused of being too close to the government and the business community. This is a problem for the foreign press, which is often seen as an outsider. The foreign press is often excluded from the most important news sources, and it is often treated like a second-class citizen. This is a problem for the foreign press, which is often seen as an outsider. The foreign press is often excluded from the most important news sources, and it is often treated like a second-class citizen. This is a problem for the foreign press, which is often seen as an outsider.

Japan's media landscape is a complex one. It is a mix of traditional media and new media. The traditional media, such as the newspapers and the television, are often seen as the most important news sources. The new media, such as the internet and the mobile phone, are often seen as the most important news sources. The Japanese media is often seen as a part of the establishment, and it is often accused of being too close to the government and the business community. This is a problem for the foreign press, which is often seen as an outsider. The foreign press is often excluded from the most important news sources, and it is often treated like a second-class citizen. This is a problem for the foreign press, which is often seen as an outsider. The foreign press is often excluded from the most important news sources, and it is often treated like a second-class citizen. This is a problem for the foreign press, which is often seen as an outsider.

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A fax that takes five minutes to travel 2000 miles shouldn't take an hour to get to your room.

When a fax arrives for you at Westin, it won't gather dust at the front desk, you'll get it immediately. That's the high level of service you

can expect from everyone you do business with at Westin. It's all part of our

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commitment to continuous improvement. We're constantly looking for new ways to eliminate hassles and make things easier for you. For reser-

vations, call your travel consultant or (800) 228-3000.

Westin Hotels & Resorts use MCI VnetSM, a virtual private network, for their internal communications.

ACAPULCO ATLANTA BOSTON CALGARY CANCUN CHICAGO CINCINNATI DALLAS DENVER DETROIT DOMINION EL PASO FORT LAUDERDALE GUADALAJARA HAMBURG HILTON HEAD ISLAND HOUSTON INDIANAPOLIS LAX LOS ANGELES MANHATTAN MIAMI MINNEAPOLIS MONTECARLO NEW YORK ORANGE COUNTY OMAHA PHOENIX PITTSBURGH PORTLAND PUERTO VALLARTA PSAN RANGHIO MIRAGE RIO DE JANEIRO SALT LAKE CITY SAN FRANCISCO SAN JOSE SAN MARINO SAN PETERSBURG SEATTLE TAMPA TAIPEI TORONTO VANCOUVER WASHINGTON D.C. WINNIPEG YOKOHAMA



to



commitment to continuous improvement. We're constantly looking for new ways to eliminate hassles and make things easier for you. For reser-



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Westin Hotels & Resorts use MCI VnetSM, a virtual private network, for their internal communications.

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ADOPTED WORLDWIDE AS A REFERENCE WHEN MEASURING CAR SAFETY.



**At BMW we believe the more you can trust a car,
the more you'll enjoy it.**

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Each and every BMW is equipped with advanced safety features designed not only to help the car better sustain a frontal impact, but more importantly, to help drivers avoid accidents altogether.



Preventing collisions is the idea behind a number of "active safety" systems.

These include suspension systems engineered for greater stability and handling in emergency situations. Anti-lock braking systems. Ergonomically designed seats to keep you comfortable and alert at all times. And a instrument panel that's clearly arranged and within easy reach.

In case of an unavoidable frontal impact accident, however, a BMW is ready with a variety of

NO WONDER.



passive safety" systems to minimise damage and injury.

An extremely rigid passenger compartment acts as a protective safety cell. Carefully engineered "crumple zones," including hydraulic bumpers and crush tubes, provide controlled deformation. There's also a driver's side airbag, and upon impact the doors automatically unlock to assist occupants in escape or rescue.

All of which is designed not only to protect you, but to inspire you. Because inherent in the joy of driving is the joy of feeling secure.

And in the final analysis, the pleasure you derive from a car is perhaps the most important measure of all.



THE ULTIMATE DRIVING MACHINE.

WILL CHINA'S ECONOMIC BOSS BE DENG'S SUCCESSOR?

It has been a great year for the West's favorite Chinese leader. In October, Zhu Rongji, China's economic czar, was elevated to the politburo. The promotion was a reward for Zhu's key role in engineering China's epoch-making shift toward a market economy. It may also tip Zhu as Deng Xiaoping's choice to take the helm once the aging patriarch dies.

As if Zhu did not already have a fat portfolio, he now is entering the swirling dispute between Britain and China over how much democracy should be permitted in Hong Kong. On a whirlwind investment-promotion visit to London in mid-November, Zhu slammed Hong Kong Governor Chris Patten's proposals for liberalizing the colony's political system and hinted that the controversy could derail the arrangements for an orderly Chinese takeover of the colony in 1997. "No one should expect confrontation to force us into concessions," Zhu said.

The comments sobered Zhu's British hosts and rocked the Hong Kong stock market because the affable, English-speaking vice-premier is considered the most liberal and pro-Western of China's mandarins. But by putting Zhu on the Hong Kong case, Beijing could also be signaling its interest in a deal. Indeed, in private meetings, British officials were careful not to alienate Zhu. "He's one of the good guys," says an aide to Prime Minister John Major. "He may be on our side."

HE DELIVERS. Zhu is as qualified as anyone to find a way out of the Hong Kong mess. He has made a career of walking a fine line between getting things done and getting into trouble. Westerners doing business in China respect him as a can-do troubleshooter. The Beijing elite keeps promoting him because he has delivered the economic goods.

As mayor of Shanghai in the late 1980s, Zhu helped revive the run-down city by attracting foreign investors, starting a

stock market, and creating the massive Pudong investment zone. His advisory council of top Western businessmen, co-founded by Maurice R. Greenberg, chief executive of New York-based insurance giant American International Group Inc., helped spur interest in China's former financial center. Zhu has been willing to intervene on behalf of Western companies—a rare trait among Chinese bureaucrats. "If foreign investors had a complaint, he would track it down—and chew people out," says Jerome A. Cohen, a Beijing-based lawyer for Paul, Weiss, Rifkind, Wharton & Garrison.



ZHU WITH MAJOR: TOUGH TALK ON HONG KONG

CLEAN HANDS. While charming to visitors, Zhu, 63, rides his own staff hard. He is outspoken against bureaucratic delay and even the appearance of corruption. Chinese managers don't dare smoke in his presence because he says they don't make enough money to be able to afford cigarettes.

But Chinese respect Zhu for keeping his hands clean during the Tiananmen Square crackdown of 1989. As Shanghai's mayor, he took to the airwaves to urge calm and managed

to keep the troops out of the city.

But it was Zhu's talents for spurring economic growth that caught Deng Xiaoping's eye. The frail power broker was behind Zhu's promotion to the top economic post in 1991. The local press has quoted Deng praising Zhu as one of the few officials "who really understands how the economy works."

How far will Zhu's meteoric rise take him? He would be well-positioned for the post-Deng power struggle if, as some speculate, Deng makes him premier next year. Of course, Zhu's fortunes are tied to economic performance. But it certainly wouldn't hurt if he could pull off a diplomatic coup in Hong Kong.

By Joyce Barnathan in Hong Kong, with Lynne Curry in Beijing and Richard A. Melcher in London

GLOBAL WRAPUP

BRITAIN

Irish Republican Army attacks are making insurers leery of covering London office buildings. The Association of British Insurers is urging its members to drop all but modest terrorist coverage as of Jan. 1. Insurers were alarmed by the discovery of a huge bomb in the heart of the Canary Wharf complex on Nov. 15. Disarmed by police, the device could have wreaked enormous damage on the office buildings. Insurers say they face a payout as high as \$1.4 billion from an IRA bombing in the City of London last April. Scores of anxious companies, from Imperial Chemical Industries PLC

to Guinness PLC, now plan to lobby the government for a state-run insurance plan similar to one that is provided for those doing business in Northern Ireland.

BRAZIL

The resignation of the chief of the state oil giant Petrobrás is raising doubts about new President Itamar Augusto Cartiero Franco's commitment to free-market reforms. Franco is continuing some reforms begun by his disgraced predecessor, Fernando Collor de Mello, but Petrobrás head Benedicto Moreira quit on Nov. 16 to protest Franco's delays in approving hikes in Petrobrás fuel prices to keep pace with

26% monthly inflation. Petrobrás is losing \$10 million per day, the departing Moreira warned.

UKRAINE

In a risky first step toward issuing its own currency, the country has banned the use of Russian rubles. All transactions must now be in Ukrainian coupons, which have been in use since January. Both Ukrainian and foreign companies are dismayed by the move. The coupons, which sell for 1.45 rubles at the Ukrainian central bank, are not freely convertible to foreign currency. And executives worry about how they are going to get rubles to buy needed supplies from Russia.

If you're looking
for a computer
that will grow
with your needs,
there are basically
only two ways
you can go.

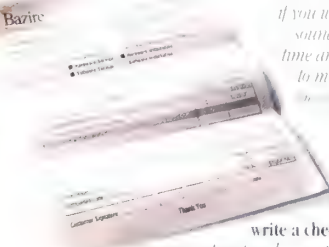
The hard way.



Add Windows, buy a new PC. Most PCs aren't designed to run Windows. You may have to buy a new computer. Why not consider a Macintosh and avoid all the problems on this page forever?

Buy a mouse, reconfigure your system.

Most PCs don't have a mouse. You'll want one. But first be prepared to install and configure a special software driver. (No need with a Mac - you just plug it in.)



Call for help, write a check. Hire somebody else to do it for you. Over time, of course, that can wind up costing you more than the PC.



Add peripherals, reconfigure your system for each one. Add a hard disk drive. Then prepare to spend hours installing and configuring each peripheral by simply plugging them in and clicking a button or two.

Add printer, adjust DIP switches. (The printer seems easy.) Until you set your DIP switches, install your driver, locate your Windows diskettes, make an error and start all over again.

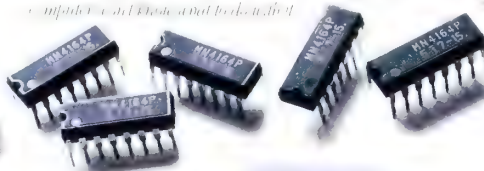


Add networking card, reconfigure your system.

Most PCs aren't designed to network. You may have to buy a new computer. Why not consider a Macintosh and avoid all the problems on this page forever?



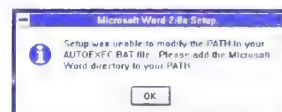
Upgrade your memory, reconfigure your system. Add more memory to a PC, and you'll almost always have to reconfigure your system. (No need with a Mac - you just plug it in.)



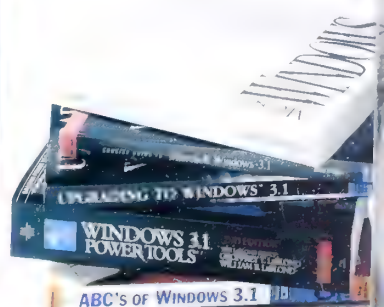
Add almost anything, reconfigure your system. Expanding your PC's capabilities can be amazingly frustrating. But a Macintosh easily adjusts to whatever extra device you add to it.

Change monitors, reconfigure your system.

Add a new monitor, and you'll have to reconfigure your entire system - or your monitor could look like this one. A Mac recognizes a new monitor and adjusts to it automatically.



Whoops! When you add something to an ordinary PC, you may have to reconfigure your system - a process of hardware and software adjustments which can be complex tedious, and take up hours of your time.



Manual labor. Software like Windows purports to make things easier. But the reality is, you'll spend hours reading manuals just to make it work - time you could spend doing more useful things with your computer.

Extra Strength!

Aspirin Tablets



500 Tablets

Expand your PC, take two aspirin. Hereafter, you'll want to expand your computer's capabilities by adding extra devices. The more instructions you slog through and switches you fiddle with, the more time it will take and the more pain reliever you'll need.

On a typical PC, even adding a simple hard disk can be extraordinarily complicated. You'll probably have to "reconfigure" your system - the time-consuming process of telling your computer what pieces you've added. You may have to edit complex CONFIG.SYS and SYSTEM.INI files, install special device drivers and fiddle with DIP switches. And, of course, building even a basic network is extremely difficult - what with installing

The easy way.



Macintosh software makes it so easy to install and use. You can add a hard drive, a CD-ROM drive, a scanner, a network, or even a modem. And you can even upgrade your Macintosh to a Macintosh Plus or SE. The Macintosh is the only computer that can do all this without the need for a technician. It's just one more example of how a Macintosh works in a simple, logical way. So you can, too.

ards and networking software. An Apple Macintosh, on the other hand, knows when you've added a hard drive. Installing a CD-ROM drive or scanner is a matter of plugging in a cable and clicking a couple of buttons. Even installing a network requires nothing more than plugging one Mac into another. It's just one more example of how a Macintosh works in a simple, logical way. So you can, too.



If you know how to use a plug, you know how to expand a Macintosh.



Plug in a second monitor—significantly enlarging your desktop work area so you can move documents, files and folders across both screens.

You can easily record sound into every new Macintosh. Plug in a microphone and you're ready to go.

Plug in an external hard drive or other storage device, and you'll have virtually unlimited hard drive storage via remote storage.



Plug in an Apple LaserWriter IIx, and everyone on your network will instantly be able to take advantage of the Apple PhotoGrade technology that rivals 800 dpi printers costing thousands more—for spectacular-looking documents.



Plug in an Apple OneScanner, and you can add beautiful black-and-white photographs to your documents with one touch of a button. No fussing or fiddling required.



Plug in an Apple II CD-ROM drive, and you'll have access to huge libraries of reference sources, fonts, clip art and desktop backgrounds. It even supports Kodaks exciting new Photo CD technology.



Plug in an Apple StyleWriter printer, and you'll have a local print, document even if you're on a student budget, but plug in an Apple StyleWriter printer.



Plug in an Apple Peripherals LaserWriter VII, and everyone in your workgroup will have access to the fastest printer in its class. (It works with PCs, too.)



Adding a peripheral to your Macintosh is so easy, you can be up and online in one. Plug it in, click a couple of buttons and get back to work.

For the second consecutive year, J.D. Power and Associates ranked Apple highest among Personal Computer Companies in Overall Customer Satisfaction. And no wonder: whether you're writing a letter or adding a CD-ROM drive, only Macintosh makes things genuinely easy. Giving you the power you really want from a personal computer. The power to be your best.



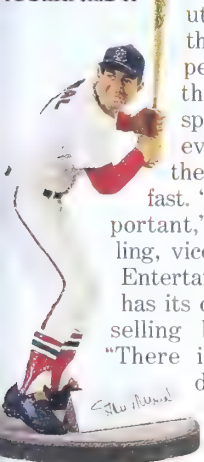
WHAT'S NEXT, RAIDERS' DEODORANT?

Big-league worry: How to fuel the boom in logo-laden goods

Minutes after Atlanta Braves outfielder Otis Nixon bunted into the last out of the 1992 World Series, a handful of harried editors in South Hackensack, N.J., were furiously spinning 96 jumbled hours of videotape from different cameras into minutes' worth of what they hope will be gold.

The frantic team at Phoenix Communications Group Inc. is producing, marketing, and distributing the World Series highlight tape in partnership with Major League

THE MANTELPIECE MUSIAL: AND IN THE MAN PHOTOGRAPHED IT



NORTHERN EXPOSURE. How quickly? Phoenix slapped together a finished master tape in a scant 10 days. The \$19.95 video, which incorporates narration, key-player interviews, and crowd color with

footage shot by both Sports Inc. and Phoenix, hit the stores on Nov. 1—less than four weeks after the Toronto Blue Jays won their first Series by besting the Braves in the wee hours of Oct. 25. Executive Producer Geoff Belfante thinks he has a hot seller on his hands: anything succeeds like

winning for the first time," he says. Especially when the Jays, "Canada's Team," belong not just to Toronto but to the entire Great White North. Richard



BETCHA NO GIANT COULD EVER BUCKLE THIS KID'S BELT PACK

Domich, Phoenix' vice-president for home video, expects to move 175,000 tapes to Canadians alone. And Phoenix should know how to sell in Canada: It also makes videos for the National Hockey League.

The Blue Jays' win couldn't have been better timed. Sales to far-flung fans are the only way the major-league sports merchandise industry can sustain the rapid growth of the past few years. Since 1987, sales of products licensed by the National Football League, National Basketball Assn., NHL, and Major League Baseball have increased roughly fivefold, to an estimated \$6.6 billion in 1992. That's a lot of "We're No. 1" foam fingers, shiny stadium jackets, and Stan Musial commemorative figurines. The market is so hot that counterfeiters have moved in. The big sports leagues formed an ad-hoc coalition to fight the knockoffs.

Evidently, no one has told sports fans about the global economic slowdown. Retail sales of all licensed sports products—including goods tied to other sports, the Olympics, and college teams—shot up 11% last year, to \$11.1 billion. Sports-team apparel can now be found at department stores and includes



FOR LITTLE PUCK NUTS: RUBBER BOOTS WITH THE COLORS AND SYMBOL OF THE CANADIENS

not only the traditional jackets, jerseys, and caps but also children's togs and women's clothes from such top designers as Nicole Miller.

Pro leagues, under pressure to mine new revenue sources as their television contracts expire in 1993 and 1994, cannily use game broadcasts to fuel sales of everything from videotapes to trading cards and souvenir programs. MLB Properties sprinkled ads for its wares throughout the World Series broadcasts. "The products sell each other," says Karen Raugust, editor of *The Licensing Letter*, a trade publication. "The games are part of the advertising, really."

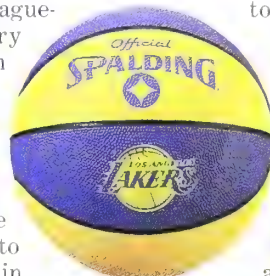
TURKEY HOOPS. The leagues are working mightily to expand their merchandising presence beyond North America. The NFL saw sales of licensed goods tied to its newly launched World League of American Football hit \$250 million in 1991. During the last year, the NBA, which airs games in 102 countries and hawks merchandise in more than 35, has begun a concerted foreign-merchandising push. It launched an international catalog, opened the first NBA retail shop in Australia, and started operations in the hoop-crazed countries of Mexico, Taiwan, and Turkey.

The NBA estimates that such deals will double its foreign retail sales to \$250 million in 1993. "As licensed merchandise becomes more popular, we get an even better time slot," says Rob Millman, vice-president for international licensing at the NBA, which plays a couple of regular-season games each year in Japan. And MLB Properties, jointly owned by the 28 major league franchises, has sales in more than 60 countries.

That's double the total of two years ago.

As aggressive major-league merchandisers are learning, where there's a satellite dish, there's a potential customer. They haven't had news that good since the invention of the adjustable cap.

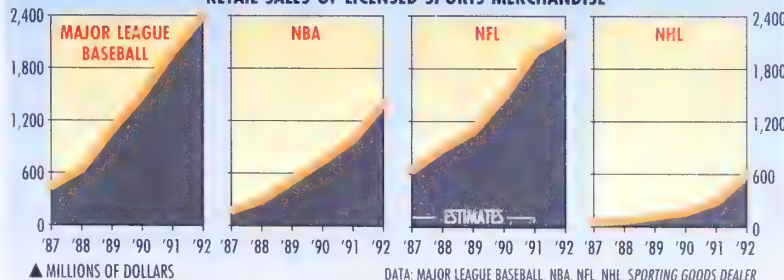
By Elizabeth Lesly in New York



THE LAKERS NAME DOESN'T MEAN YOU MAKE MAGIC SHOTS

BEYOND BASEBALL CAPS

RETAIL SALES OF LICENSED SPORTS MERCHANDISE



QUALITY

SMALL AND MIDSIZE COMPANIES SEIZE THE CHALLENGE—NOT A MOMENT TOO SOON

When Jimmie L. Mayhew popped into his boss's office in 1988 and announced that he was heading to Disney World on business, Terrence L. Rock's jaw dropped. "How am I going to explain that to management?" he shot back. "That's my benchmark," replied Mayhew, the facilities manager at Convex Computer Corp.

Rock, then senior vice-president for operations and now chief operating officer, pondered what an amusement park might teach a computer maker about quality—and quickly realized the trip was no lark: In the realm of facilities management, Walt Disney Co. is king.

So, Mayhew spent a week in Orlando, picking the brains of his Disney counter-

part. He returned brimming with ideas, several of which have improved manufacturing at Convex, a \$198 million company in Richardson, Tex. Among the many it adopted: empower workers to make spot decisions rather than waiting for a manager's ruling. Another: develop fixed patterns for routine maintenance chores and reinforce them through con-

HOW TO MAKE YOUR COMPANY A QUALITY MASTER

Novices that try to match the techniques used by world-class performers may actually make things worse by trying to do too much, too soon. So finds a three-year study of 580 companies in North America, Germany, and Japan by Ernst & Young and the American Quality Foundation. Instead, they suggest making gradual progress toward excellence.

Start by measuring your existing performance. Two key measures are return on assets, which is simply aftertax income divided by total assets, and value added per employee. Value added is sales minus the costs of materials, supplies, and work done by outside contractors. Labor and administrative costs are not subtracted from sales to arrive at value added.

BY PETER H. RAVENHILL

NOVICE

GETTING STARTED



PROFITABILITY

Less than 2% return on assets (ROA)

PRODUCTIVITY

Less than \$47,000 value added per employee (VA)

EMPLOYEE INVOLVEMENT

\$ Train heavily. Promote teamwork, but forget self-organized teams, which take heavy preparation. Limit employee empowerment to resolving customer complaints.

BENCHMARKING

Emulate competitors, not world-class companies

NEW PRODUCTS

Rely mainly on customer input for ideas

SUPPLY MANAGEMENT

Choose suppliers mainly for price and reliability

NEW TECHNOLOGY

Focus on its cost-reduction potential. Don't develop it

MANAGER AND EMPLOYEE EVALUATION

Reward frontline workers for teamwork and quality

QUALITY PROGRESS

\$ Concentrate on fundamentals. Identify processes that add value, simplify them, and move faster in response to customer and market demands. Don't bother using progress gauges—gains will be apparent



Activities that should reap the highest paybacks

ant repetition. By taking these lessons to heart, Convex has slashed electrical breakdowns in its factory by 80% since 1990, saving millions of dollars.

Convex is just one of a growing minority of small companies that are learning what a difference quality makes.

Several little auto-parts suppliers, for instance, have won spots on the quality honor roll at multiple carmakers, including at least one Japanese transplant (page 70). Last year, 13 winners of the Malcolm Baldrige National Quality Award were small or midsize companies: Marlow Industries, Sonnetron, and Zytec. Two more won this year—Granite Rock Co. and Ritz-Carlton Hotel Co.

In fact, small companies now vie for a Baldrige in unprecedented numbers. Their participation has grown from 18% of entries in 1988 to 48% of this year's aspirants, and the trend isn't likely to abate: Large companies increasingly are pressuring their suppliers to prove their

quality credentials by aiming for the Baldrige. Motorola Inc. has given its suppliers until 1994 to apply or risk being dropped. And 16 states have launched programs to help local companies boost quality or productivity, with 16 more states about to do so. Most such efforts are designed to be stepping stones to a Baldrige, and small businesses are the primary targets (page 69).

Such efforts are long overdue, precisely because U.S. competitiveness depends so much on them. Small and midsize companies account for half the total value added by U.S. manufacturing, according to the National Coalition for Advanced Manufacturing. They also produce nearly half of all U.S. exports and employ more than half of all factory workers. Moreover, large manufacturers often rely on smaller suppliers for 50% or more of the value of finished products, from computers to industrial machinery.

What worries the experts is that these

industrial linchpins have become more vulnerable in recent years because their managers haven't taken the time to learn quality techniques. And even when they have, tighter bank-lending rules have made it harder to upgrade factories. These are two significant reasons why the productivity of manufacturers with fewer than 500 employees didn't grow as fast as that of their larger cousins in the 1980s. "Time is fast running out" for the laggards, argues V. Daniel Hunt, president of Technology Research Corp., a Springfield (Va.) consulting firm. He advises companies that hope to survive into the 21st century to launch a total quality initiative soon.

NO SINGLE FORMULA. Trouble is, the task isn't simple. An all-out quality commitment requires companies to uproot entrenched habits and business methods and virtually start over. That's usually harder than coming up with the necessary resources: time for sure, and usually money, too. Worse, no single formula works for everyone. In fact, simply aping what quality leaders such as Xerox



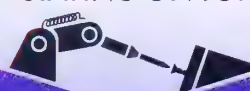
JOURNEYMAN

HONING NEW SKILLS



MASTER

STAYING ON TOP



6.9% ROA

00 to \$73,999 VAE

encourage employees at every level to find ways to do their jobs better—and to simplify core operations. Hire a separate quality-assurance staff

market leaders and selected world-class companies

customer input, formal market research, and internal ideas

suppliers by quality certification, then price

ways to use facilities more flexibly to turn out a wider range of products or services

compensation for both workers and middle managers on contributions to teamwork and quality

meticulously document gains and further refine practices to improve value added per employee, time to market, and customer satisfaction

ROA of 7% and higher

VAE of \$74,000 and up

 Use self-managed, multiskilled teams that focus on horizontal processes such as logistics and product development. Limit training, mainly to new hires

 Gauge product development, distribution, customer service vs. the world's best

Base on customer input, benchmarking, and internal R&D

Choose suppliers mainly for their technology and quality

Use strategic partnerships to diversify manufacturing

Include senior managers in compensation schemes pegged to teamwork and quality

Keep documenting gains and further refine practices to improve value added per employee, time to market, and customer satisfaction

MEASURES

TECHNIQUES



L.L. BEAN THE RETAILER CORRECTLY SHIPS 99.9% OF ITS ORDERS—EVEN DURING CHRISTMAS

Corp. are doing may waste time and money on the wrong things. That's one startling insight uncovered by the International Quality Study (IQS), a groundbreaking new project by Ernst & Young and the American Quality Foundation.

If its findings are right, total quality management (TQM)—making customer satisfaction the No. 1 priority—could soon face an even more violent backlash than the one that surfaced last spring. In March, consultant Arthur D. Little Inc. announced that a survey of 500 manufacturing and service companies that use TQM turned up only 36% that felt it was significantly boosting their competitiveness. That same month, consultant Rath & Strong Inc. asked 95 companies to analyze whether their TQM efforts had met such goals as raising market share or increasing customer satisfaction. Rath & Strong gave more than half of those initiatives Ds and Fs, and only 26% rated an A or a B.

This argues for careful planning as small companies embark on quality crusades. One common mistake, says Joshua Hammond, president of the American Quality Foundation (AQF) in New York, is a failure to link quality efforts to the bottom line. Often, he adds, quality proselytizers confuse ends and means. They believe that merely implementing quality techniques, including seemingly ubiq-

uitous employee empowerment and benchmarking strategies, will produce benefits. "Take teamwork training, which is usually the first thing that consultants sell. If you then ask them how things are going," says Hammond, "what you get as a measure is how many people are being trained, not what difference it's making in performance."

CAUSE AND EFFECT. To nail down which practices boost the bottom line, Ernst & Young collected extensive data on 945 business practices from 580 companies in the auto, computer, banking, and health-care industries in Japan, Germany, Canada, and the U.S. For two years, two research teams led by William H. Schmidt, a professor of applied statistics at Michigan State University, have been independently combing through the data, searching for correlations. "Where their analyses converged, we then dug in and looked for cause-and-effect relationships," says the AQF's Hammond.

Some of the discoveries are stunning—including new insights on benchmarking. From the publicity it's getting, this strategy of copying the so-called best practices of companies that excel at a given business process or function would seem to be the cornerstone of any quality program. It's certainly the foundation of the Baldrige award. Of a possible 1,000 points on the Baldrige score-

card, more than half stem from comparisons of how a company stacks up against its competitors.

Yet the IQS data indicate that benchmarking won't improve performance unless a company already has a comprehensive quality program. In fact, for low and medium performers—companies with returns on assets of under 7% and less than \$74,000 value added per employee—it can hurt. Information supplied by low achievers shows that where they used benchmarking to try to improve marketing, for example, they usually ended up worse off than they were before. "Think about it, and it makes sense," says Hammond. If a company doesn't have a quality-oriented infrastructure in place and hasn't trained its employees in quality principles, "trying to imitate the best of the best will just disrupt operations."

Curt W. Reimann, who heads the Baldrige award program at the National Institute of Standards & Technology, doesn't argue with that. Some companies, he says, think benchmarking is "instant pudding." Wrong, says Ronald P. Schmidt, chairman of Zytec Corp., a 1991 Baldrige winner that posted \$74 million in sales of so-called power supplies or electronics gear last year. Until a company has built a culture of quality, he adds, it won't know how to exploit e-

sights gleaned from benchmarking. Such warnings have helped persuade the Minnesota Council for Quality, a state-sponsored group of which Schmidt is a board member, to go beyond sponsoring an annual "Baldrige Jr." competition. It also provides \$5,000 grants to local groups, such as chambers of commerce, so they can set up community quality councils where business people can learn how to build a TQM program from scratch. In neighboring Wisconsin, the Wisconsin Quality Network consists

of 14 regional networks, each with scores of members. They sponsor seminars, luncheons, and other activities for swapping ideas. But not a contest. "We didn't want to promote competition over the sharing of information," says James Paetsch, director of a regional group, Milwaukee First in Quality. The goal, he adds, is to help companies get started on the right foot.

The International Quality Study should help on that score. Based on empirical data, its findings contradict the

notion that there's some magic quality formula. Instead, the research shows that companies advance in stages along a learning curve. "At each level of performance," says Hammond, "you pull a different set of levers to reap the maximum payoff" (table, page 66).

So where should a beginner start? Fred Weninger, chief executive of Iomega Corp. in Roy, Utah, suggests focusing on cycle time. This means speeding up the total time, start to finish, that it takes to complete a given business

HOW THE STATES ARE PLAYING MIDWIFE TO 'BABY BALDRIGES'

Few government initiatives can match the success of the agricultural extension service in stimulating private-sector productivity. So the National Institute of Standards & Technology (NIST) dreams of something similar for promoting quality programs. Because it's short on money, however, NIST must rely on what Curt

W. Reimann, administrator of the five-year-old Malcolm Baldrige National Quality Award, calls "a lot of leverage systems." That means spreading the quality message to small business via the National Governors' Assn., chambers of commerce, and other state and local groups.

It seems to be working. Most of the 16 states that have quality programs—including Delaware, Maine, Nevada, New York, and North Carolina—got the bug after the Baldrige program was started in 1987. At least 16 more—including Colorado, Florida, Missouri, and Texas—are about to join in. By most accounts, Minnesota has one of the top three programs. "We're helping make the state a better place to do business" asserts James F. Buckman, president of the Minnesota Council for Quality.

HAPPY HUB. The state founded its group in 1987. Two years later, 3M, Honeywell, IBM, and two other large companies stepped in with funding, partly to make their suppliers more quality conscious. The state council holds seminars and meetings, serves as the hub of a growing confederation of local councils, and sponsors the annual competition for the Minnesota Quality Award.

That prize, which will be awarded for the third time next year, was modeled after the Baldrige, right down to arroying the same 28 criteria. To make the contest "less intimidating for

smaller companies," says Buckman, Minnesota requires less documentation than is needed for the national award.

Still, the process is demanding enough that it can be a dress rehearsal, says Douglas Darbo, quality assurance manager for EMD Associates, the Winona (Minn.) maker of electronic components that shared this year's

components for computer disk drives, spent the next 12 months working on them. Among other things, it started revamping its quality processes to comply with ISO 9000, the new standards that will soon be required of companies that trade with Europe. Fortun also credits Hutchinson's quality focus for helping to produce a 40% jump in earnings, to \$13 million for the fiscal year ended Sept. 30, on a revenue gain of 12%, to \$160 million.

INSTANT WINNERS. If the hint of such riches doesn't do the trick, Buckman will resort to showmanship to interest the uninitiated in quality. For instance, he recently deputized 250 volunteers to bestow 1,000 instant quality awards—lapel pins—on folks who do what they do quite well, be it shining shoes or performing brain surgery. The lucky winners were invited to a lunch with Minnesota Governor Arne Carlson. "It's a good way to raise consciousness about quality in little towns around the state," says Buckman.

The council is also working with Minnesota Technology Inc., a state organization that helps small business, to develop a standard process for certifying suppliers. And it has launched projects to spread quality programs to the public sector, including the Minnesota school system and state agencies such as the Revenue Dept. The long-term goal, says Buckman, is to make quality synonymous with Minnesota.

There's no way to know for sure what difference these efforts will make. But Buckman likes to note that Minnesota's unemployment rate is 4.8%—well below the national average of 7.4%. Such statistics, he says, give him an inkling that the state's emphasis on quality doesn't hurt.

By Kevin Kelly in Chicago



HUTCHINSON PRESIDENT FORTUN'S WINNING TEAM LEARNED BY LOSING

Minnesota prize. In fact, Zytec Corp. in Eden Prairie, the first state winner, won a Baldrige the same year.

Wayne M. Fortun, president of Hutchinson Technology Inc., the other co-winner of this year's Minnesota award, says his company learned valuable lessons from last year's failed first stab. The judges cited 23 areas of deficiency, and Hutchinson, a maker of

process, be it handling customer complaints or producing Iomega's Bernoulli disk drives. When Wenninger took the helm in 1989, Iomega needed 28 days to make a drive—and the onetime highflier was still recovering from a flirtation with disaster. In 1987, its fourth year in business, sales plunged by a third from 1986's record \$126 million, and the company had a \$37 million loss. Today, its production cycle has been trimmed to 1.5 days—and last year, Iomega earned \$14 million on sales of \$120 million.

Reducing cycle time is an ideal tool for a small business because the concept is easy to grasp, its effects on quality and performance show up quickly, and it's cheap. "We did it on a shoestring—

we had to," says Wenninger. The idea, he explains, is to "find your main bottleneck and attack it relentlessly." To reduce time wasted in shuttling work-in-progress among machines, Iomega grouped its equipment in clusters of related operations. This eliminated so-called buffer inventories, so assembly became one continuous operation and products weren't parked for hours or days in holding zones.

The reason for concentrating on some kind of easy fix is to get quick, positive feedback. Step Two is to repeat the problem-solving cycle, and keep repeating it, until the process improves to the point where something else surfaces as the biggest bottleneck—then go after

that. This technique is often called the Deming circle, because it has long been a favorite strategy of quality guru W. Edwards Deming.

MURKY MAZE. Wenninger zeroed in on the production cycle for two reasons. There was an enormous investment tied up in 28 days of work-in-progress—Iomega purchased parts and materials, plus unsold inventories of finished goods. Pulling that money out of the factory saved Iomega \$6 million a year. Then, there was the quality of the product itself. "When your cycle is 28 days and you spot a defect at the end of the line," explains Wenninger, "you can imagine how hard it is to isolate the problem." Iomega was spending perhaps \$20 million a year to

'A LITTLE BIT OF SMARTS, A LOT OF HARD WORK'

Get lost. That's essentially what Buick Motor Div. told Michael A. Plumley in 1983. Citing poor-quality parts, the General Motors Corp. unit dropped Plumley Cos., which since 1967 had been a supplier of hoses and other rubber gear. But instead of quitting, Plumley fought back. It stepped up worker training and started a quality drive that has taken it to the front ranks of America's auto-parts industry. Today, the \$80 million company holds quality awards from GM, Chrysler, and Nissan, and is one of 16 suppliers in the world to have earned Ford's Total Quality Excellence (TQE) award.

Pushed by their customers, a handful of small U.S. parts makers have remade themselves into industry pacesetters. They have retrained their employees, upgraded equipment, and worked to make their own suppliers comply with ever more demanding standards. They didn't have the resources of such corporate giants as Xerox Corp. or Motorola Inc., so they compensated. "It's a little bit of smarts, a lot of hard work, and constancy of purpose," says Plumley, chairman and CEO of Plumley Cos.

To identify these top-drawer outfits, BUSINESS WEEK asked consultant ELM International Inc. in East Lansing, Mich., to search its data base for auto suppliers that had won quality awards from at least two of Detroit's Big Three and also from one Japanese transplant. More than half of these 48 suppliers were the U.S. units of such Japanese heavyweights as Nippondenso Co., the world's largest independent auto-parts maker. Most of the rest were major players or their divisions: Goodyear, Michelin, the

Spicer Universal Joint Div. of Dana Corp. But a handful of them were small companies.

At first glance, three of the group have little in common. At the Springfield (Tenn.) plant of Perstorp Components Inc., chemicals and recycled plastics are mixed in large vats, poured out like cookie dough, then cut and baked into noise-deadening floor insulation for Ford Rangers and Jeep Grand Cherokees. Manchester Stamping Corp. in Manchester, Mich., cranks out brackets, door latches, and other steel parts—most no larger than your hand—from a row of metal presses. At Plumley's Paris (Tenn.) factories, some workers carefully glue oil-retaining rubber seals to engine parts, while others make, bend, and trim rubber engine hoses into pretzel-like shapes.

BACK TO SCHOOL. All three share one distinction, however: an unwavering focus on excellence. "Customer satisfaction is as good a definition of quality as there is," says Art Mulwitz, Perstorp's vice-president for operations. "The key to pleasing your customers is not shipping mistakes." Sounds simple, but some of these manufacturers weren't even sure how many mistakes were getting out the door when they began to look inward.

In the early 1980s, Ford Motor Co. insisted that parts makers jump into classes on statistical process-control to learn how to limit variations in production. Number-crunching wasn't all they learned. Plumley, for example, found that an inspector responsible for measuring hoses couldn't read a ruler. In mid-1984, the company began remedial

classes for workers. Since then, more than 65 have earned a high-school equivalency degree.

Now, new hires get 14 hours of training: 10 in statistics, 4 in problem-solving techniques. Manchester Stamping pays tuition and book fees for employees to manage at least a "C" average at school—technical, junior college, or University of Michigan. At any time, 10 of the company's 80 employees are enrolled somewhere. "I'd like to see 50% of our people doing it," says Plumley, president and CEO Wayne T. Hamilton.

As Plumley's employees have become better at managing quality, the company has grown dissatisfied with its own.

**PERSTORP
MACHINERY
DOWNTIME HAS
BEEN CUT FROM
30% TO 6%**



and repair defective drives when it could have been "mistake-proofing" the manufacturing process.

Omega's comeback was honored last year with a Shingo Prize for Excellence in American Manufacturing. Named for the late Shigeo Shingo, a Japanese consultant who was instrumental in developing just-in-time (JIT) manufacturing, the award is sponsored by industry groups, including the Association for Manufacturing Excellence and the National Association of Manufacturers, and administered by Utah State University. Omega's new day-and-a-half production cycle is exceptional—but only marginally so. Solectron Corp., a San Jose (Calif.) manufacturer with sales last year of \$265 million, won its 1991 Baldrige award partly by cutting the produc-

tion cycle for a computer disk drive by 80%, to two days. In the process, it also reduced the product's annual inventory costs by 80%, to \$3.5 million, and chopped defects from 100 parts per million to 2. In fact, most manufacturing shops that haven't tackled cycle time can trim it by 80% to 90%, estimates Steven M. Hronec, head of manufacturing consulting at Arthur Andersen & Co.

The benefits extend beyond cost savings. "If you reduce the design cycle from 20 weeks to 12 days, now you can be far more responsive to customers," says Terrance R. Ozan, director of manufacturing services at Ernst & Young. Such a level of service can also command premium prices and give a company the flexibility to tailor products for more niche markets. Reducing time to

market and inventory costs has proved so valuable to U. S. Robotics Inc., an \$80 million maker of modems, that the company is phasing out contract production in Mexico and moving the work to Skokie, Ill.

THE BALLGAME? The cycle-time approach can be applied to paperwork procedures as well. A recent McKinsey & Co. study of the procurement process turned up incredible gaps between world-class practice and that of ordinary companies (table, page 72). In fact, Iomega's Weninger believes cycle time is so vital that it's more than just a good place to start—it can be the entire ballgame. "I'm not sure you need anything else," he says.

Well, not quite. Exploiting the technique to its fullest means that engineers

their machinery, which couldn't parts at tight enough tolerances. The company spent \$28 million to up-
The other two companies have d suit. For instance, Perstorp's ents included a \$20,000 shop-
computer that automatically plots charts showing how many pieces lation are outside the acceptable ss limits of 2.912 mm to 2.988 elieving workers of drawing such saved the company more than in the first year, says Mulwitz. hile, Manchester replaced virtual- f its presses—a four-year, \$4 mil- penditure.

as the auto makers had, parts came down hard on their suppli- Manchester had more than 30 steel

suppliers in 1985; today, it has five. And now that it's writing bigger orders, it can demand faster service on, say, a new alloy for a special part. Plumley tracks its suppliers' performance and invites the best to an annual ceremony and golf match.

QUICK FIX. Monitoring suppliers is particularly crucial at Perstorp, where half of the raw material used is plastic recycled from garbage. Recently, Mulwitz phoned a longtime supplier that had shipped a batch tainted with a verboten chemical compound. They quickly worked out a way to monitor deliveries until the problem could be solved.

All three have also come up with specific targets for improving efficiency and cutting waste. Once, a maintenance

worker told Perstorp's Mulwitz that he considered 80% to 85% uptime acceptable for the plant's machinery. "What uptime do you expect from your Chevy Blazer?" Mulwitz replied. Uptime now averages 94% to 97%.

All this pays tangible dividends. At Perstorp, waste is down to 0.7% of sales from 2.5% a few years ago, and the company has become a model of quality control for its parent, Perstorp AB, a Swedish chemical concern. Plumley's TQE status allows it to look at—and prepare bids on—future Ford projects ahead of its competitors. Manchester's Hamilton says its award from Honda Motor Corp.'s Marysville (Ohio) plant has opened the door for work with other Japanese carmakers.

Still, the task never ends. In mid-November, Plumley learned that it won't get its sixth straight Quality Master Award this year from Nissan. Likewise, Manchester may not get a repeat nod from Honda. It shipped a single bad part this year out of some 2 million, the result of a plating mistake that a subcontractor made after Manchester had stamped the part. "We didn't do it, but we're still responsible for it," says Hamilton. He laughingly recalls being proud in 1989, when 99.9996% of the parts Manchester shipped were defect-free. Now that perfection is within reach, such performance just isn't good enough.

By James B. Treece in Paris, Tenn.

HONOR ROLL OF SMALL AUTO-PARTS SUPPLIERS

Five U.S. suppliers have proven that small companies can hold their own in quality, even in the tough automotive industry. Each has been designated a quality supplier by all of the Big Three, plus one Japanese transplant

Company/Location	Principal products	Annual sales Millions	Employees
Manchester Stamping Manchester, Mich.	Door latches, other small metal stampings	\$15	80
Gates Power Drive Products Bloomfield Hills, Mich.	Pulleys, brackets	57	250
Perstorp Components Bloomfield Hills, Mich.	Noise-insulation sheets	70	590
Plumley Paris, Tenn.	Sealants, gaskets, other rubber products	80	900
Automotive Industries Strasburg, Va.	Sun visors, door panels, armrests	209	2,700

DATA: ELM INTERNATIONAL, BW



and managers must be trained to function in teams. Workers need to be given responsibility for making decisions that affect their performance, and policies must be developed for rewarding contributions to quality progress. These things take time, and the International Quality Study indicates that it's unwise to push too fast.

"The last thing you want to do is reward people out of their jobs," says Wenninger. "If a work team is bright enough to figure out a way to reduce the number of people they need, and we don't have an opening somewhere else, we'll tell the extra worker to go think about other improvements."

Once such steps have been taken, practically any small company can achieve quality levels that once would have seemed unrealistic. Take L. L. Bean Inc., the Freeport (Me.) retailer of outdoor gear. During one stretch last spring, it mailed 500,000 packages—and claims to have correctly filled every order. Its fill-rate, as the measure is called, hasn't dropped below 99.9% in the past year, even during the Christmas season, when the company mailed as many as 134,000 packages a day.

Manchester Stamping Corp., an automotive-parts supplier in Manchester, Mich., tells a similar story. It now sneers at a record that many companies would envy: In 1989, it shipped 540,000 parts to Honda of America Manufacturing Inc. in Marysville, Ohio—of which seven were bad. President Wayne T. Hamilton isn't content. His new goal is perfection.

AMAZING SAVINGS. Much of the time, that level of quality produces healthy financial rewards. The first small company to win a Baldrige award, in 1988, was Cleveland's Globe Metallurgical Inc. Its chief executive, Arden C. Sims, estimates that Globe's investments in quality have produced a 40-to-1 return. From 1986 to 1988, Globe cut operating expenses by a hefty \$11.3 million, and its quality efforts continue to pare operating costs by about \$4 million a year. Recently, Sims told the *Harvard Business Review* that annual savings from quality efforts for his \$115 million company should increase to about \$13 million by 1995. "If you had told me back in 1985 that we would be able to get these kinds of savings from quality," he add-

ed, "I never would have believed you."

Still, as TQM cynics are quick to observe, collecting a Baldrige is no guarantee of success. For Houston's Wallace Co., in fact, the award may not even ensure survival. A family-run distributor of pipes and valves, Wallace won a Baldrige in 1990. But then, Wallace went overboard in complying with the Baldrige requirement that winners share their knowledge. It granted so many of the subsequent flood of requests for help that its own business suffered. That compounded financial problems stemming from the Texas oil-field bust of the early 1980s and helped force the company into Chapter 11 early this year. Now, Wallace is on the block. "We probably should have been concentrating more on our own business rather than

McKinsey offers the "Horizontal Organization," which also leans heavily on reengineering, or restructuring the organization around the flow of value-adding processes. Some experts think the reengineering approach championed by consultant Michael Hammer, president of Hammer & Co. in Cambridge, Mass., will displace TQM at many companies.

SMALL IS SPEEDY. How much new substance there is in such strategies is unclear, since total quality has always been holistic, including everything from rethinking business processes to satisfying a company's internal divisions or departments to winning over customers. No matter how the terminology changes, believers such as Iomega's Wenninger stress one point: "This quality stuff is absolutely critical."

Once small-businesses are convinced of this, NIST's Reimann thinks they'll push forward quickly. In fact, he says, quality programs seem to take an extra year to implement for each additional layer of management. Therefore, "small companies can make impressive gains in short time." A. Blanton Godfrey, chairman of the Juran Institute Inc. in Weston, Conn., the quality consulting firm founded by pioneer J. M. Juran, sees another reason to be upbeat: Small companies, he thinks, haven't drifted very far from TQM's "native state." In tiny organizations with only a couple dozen people, teamwork, empowerment, and the other hallmarks of total quality come naturally.

Many will even come with some clever twists. Early this year, for example, Dallas Semiconductor Corp. figured it was ready for some benchmarking. "Nobody can afford not to look outside," says Chief Executive C. V. Prothro. But instead of sending a team to inspect the target—the product-development process at Silicon Graphics Inc. in Mountain View, Calif.—Prothro persuaded Silicon Graphics engineers to come to Dallas and evaluate his company's methods on the spot. That may be just one of many innovations that America can expect from its entrepreneurs.

By Otis Port in New York, with Jon Carey in Washington, Kevin Kelly in Chicago, Stephanie Anderson Forest in Richardson, Tex., and bureau reports

BENCHMARKING AT WORK: IMPROVING PROCUREMENT

Purchased parts and materials are usually at least 50% of overall production costs. That's why world-class companies try to manage procurement efficiently

	Typical company	World-class company
COST FACTORS		
SUPPLIERS PER PURCHASING AGENT	34	5
AGENTS PER \$100 MILLION OF PURCHASES	5.4	2.2
PURCHASING COSTS AS A % OF PURCHASES MADE	3.3%	0.8%
TIME FACTORS		
SUPPLIER EVALUATIONS (Weeks)	3	0.4
SUPPLIER LEAD TIMES (Weeks)	150	8
TIME SPENT PLACING AN ORDER (Weeks)	6	0.001
QUALITY OF DELIVERIES		
LATE	33%	2%
REJECTED	1.5%	0.0001%
MATERIALS SHORTAGES (No. of instances per year)	400	4

DATA: MCKINSEY & CO

trying to help other people's," concedes John W. Wallace, son of the founder and former chief executive. But he has no regrets about the quality crusade: "It's the only reason we're still here," he says.

Citing Wallace as a warning, consultants are trotting out new recipes for success. Arthur D. Little's is named "the High Performance Business." It calls for "reengineering" business processes to forge the link with the bottom line that AQR's Hammond says is so often lacking. Rather than betting everything on customer satisfaction, ADL advises aiming for balanced satisfaction among customers, employees, and shareholders. Declares P. Ranganath Nayak, an ADL senior vice-president: "You have to think about all the factors all the time."

Continued on page 4



It's not just an award. It's a way of life.

AT&T Network Systems' Transmission Business Unit has just won the 1992 Malcolm Baldrige National Quality Award. Given annually since 1988 by the U.S. Department of Commerce, the Baldrige is the nation's highest award for quality management and achievement in American business.

This distinction makes us proud of our outstanding people who contributed so much.

Our advanced digital systems create the highways that transport voice, data and video over the most reliable networks in the world. Winning the Baldrige is one result of the total quality approach started by the Transmission Business Unit in 1989. We view this recognition as the latest milestone in our continuing efforts to offer the finest products, most advanced technologies, and most helpful service to our customers. We feel good about meeting the requirements of the Baldrige examiners. But our real goal is to exceed our customers' expectations and requirements.

Because to us, they're the judges who really count.



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GE Plastics • Xerox

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EMPLOYEE EMPOWERMENT

Corning • Dow • Milliken
Toledo Scale

EQUIPMENT MAINTENANCE

Disney

FLEXIBLE MANUFACTURING

Allen-Bradley
Baldor • Motorola

BEG, BORROW —AND BENCHMARK

To compete, companies now openly copy others' best practices

Managers in the U.S. smiled knowingly in the 1950s when Japanese engineers made the rounds at trade shows, endlessly snapping photos. In the '70s, the smiles faded as those photos led to world-class products. Now, the U.S. is embracing an effective response: benchmarking.

Despite its ring of respectability, the term is a euphemism for legally ripping off someone else's idea, then improving on it. Once, U.S. managers gagged at such a thought. Today, senior executives at both electronics whiz Motorola Inc. and textile maker Milliken & Co. boast of stealing shamelessly from rivals—or from anyone who does things better. That change in mindset is boosting U.S. competitiveness by overcoming the not-invented-here syndrome. "Too many companies suffer because they refuse to believe others can do things better," says Robert C. Camp, manager of benchmarking competency at Xerox Corp.

U.S. industry took so long to adapt because it went unchallenged for two decades after World War II. Then when it got hammered, most managers denied reality and blamed unfair trading practices by offshore rivals. That happened at Xerox in 1979. When Japan's Canon Inc. introduced a midsize copier for under \$10,000—less than it cost Xerox to make a similar machine—Xerox was sure Canon had priced it below fair value to "buy" market share. Xerox engineers soon confirmed the worst: Canon was radically more efficient. Yet it took Xerox more than a year to decide that "we had to get back on track or roll over and die," recalls Camp.

TEN STEPS. The resulting effort gave birth to the prototype for today's benchmarking campaigns. From 1980 to 1985, Xerox adapted various Japanese techniques to cut its unit-production costs in

half and slash inventory costs by two-thirds. Since then, its share of the U.S. copier market has climbed 50%, roughly 15%, says market researcher Dataquest Inc. Impressed, Camp didn't stop with manufacturing. He distilled Xerox' experience into a 10-step recipe for achieving quantum leaps in the performance of any department or process. The key: hunting down so-called best practices, then developing a strategy for matching what the best will probably be in the future—and doing it over and over again. "We're in a race without a finish line," says Camp, who by now has applied this approach to virtually every facet of Xerox' business.

The turnaround at Xerox triggered a flood of inquiries from other companies. By the mid-1980s, benchmarking was also leading to improvements at AT&T, Hewlett-Packard, and IBM. Ford Motor Co. set out to trim its 500-employee accounts-payable staff by 20%—until it peeked at the same operation at Mazda Motor Corp., of which Ford owns 25%. Mazda made do with 80% fewer people, adjusting for a smaller size. As a result, Ford aimed for—and got—75%.

BEAN PICKING. Motorola Inc. had a similar revelation. A delegation it sent to Japan in 1985 saw calculators and computers being made with defect rates 500 to 1,000 times better than at U.S. electronics makers. And the Japanese had lower production costs, disproving a belief of some U.S. managers that quality is expensive.

The spread of benchmarking now has created many role models at home. When Xerox set out to improve its order fulfillment 10 years ago, for instance, it went to L.L. Bean Inc. Several senior Xerox managers knew from personal experience that the Freeport (Me.) mail order house shipped products quickly and reliably. Copier parts have little



XEROX CAMP
WAS OUT IN FRONT

common with Bean's outdoor paraphernalia, but the order-filling processes are similar: Both involve handling products widely varied in size and shape that the work must be done by hand. L. L. Bean, it turned out, was able to "pick" orders three times as fast as Xerox. Lesson learned, Xerox pared its warehousing costs by 10%.

L. L. Bean's methods are nothing exotic. One is stocking high-volume items close to packing stations. More intriguing is that Bean's workers suggested the idea. It stemmed from a periodic exercise in which workers drew flowcharts tracing their movements to spot wasted motion. This impressed a delegation from Chrysler Corp.'s central parts plant, which visited Freeport last spring. Norm M. Hamway, manager of the Chrysler facility in Centerline, Mich., now says the carmaker should rely more on "problem-solving at the worker level."

Benchmarking can be just as effective in the opposite direction—helping small companies copy big-business practices. Franco Inc., a tiny Cleveland-area producer of duct tape, draws inspiration from Wal-Mart, Rubbermaid, and PepsiCo to keep archrival 3M Co. at bay. At Convex Computer Corp., "benchmarking is critical to our strategy," says Chief Operating Officer Terry L. Rock. The Richardson (Tex.) company isn't flush enough to hire a stable of experts, so narrowing best practices is "the only way for us to win," Rock adds.

NOT FOR AMATEURS. The caution for novices and small companies alike is not to go too far too fast. For two years, consultants at Ernst & Young in Cleveland and the American Quality Foundation in New York have been analyzing business practices at 580 companies in four industries—autos, computers, banking, and health care. Part of what they've turned up flouts conventional wisdom: While benchmarking produces big paybacks for companies already at a high level of quality, it can hurt quality neophytes (page 66).

Even industrial giants can run aground on benchmarking. When quality efforts aren't coordinated by top management, says J. M. Juran, a consultant and quality pioneer, it's quite possible for one department to launch a benchmarking program that inadvertently undermines another. One oft-cited example is when purchasing devises a better system of managing suppliers, but that adds to buying equipment or materials at hamper manufacturing efficiency. That's why Henry J. Johansson, theoppers & Lybrand partner in charge of

manufacturing consulting, thinks benchmarking should be done in conjunction with business reengineering—rethinking work flow plus the procedures and systems used in various tasks. Doing this helps managers grapple with interdepartmental conflicts and bottlenecks. Armed with these insights, a company can concentrate on enhancing processes that add value. This structural revolution is already under way, says

Johansson, at C&L clients as diverse as Allied-Signal, Boeing, Chevron, Eastman Kodak, GTE, and Merck.

PHH FleetAmerica, the \$1 billion fleet-leasing arm of PHH Corp. in Hunt Valley, Md., is also heeding this advice. "We've looked at every process and defined the 16 key ones that run our business," says President William F. Adler. Each was benchmarked against both rivals and customer expectations to select the initial candidates for the reengineering that began in February. The aim, says Adler, is to improve "the things that add value to our customers."

So many companies are benchmarking—often at the insistence of companies they supply, or to meet the criteria for applying for the Malcolm Baldrige National Quality Award—that latecomers can have trouble finding partners to imitate. Last year, L. L. Bean hosted 35 benchmarking visits. This year, it has been receiving up to five requests a week—too many to handle. So now, only companies that show a compelling need are allowed to see how it's done. "We're looking for genuine interest in quality, not the merely curious," says Robert Olive, L. L. Bean's plant manager.

Locating willing partners and identifying best practices should soon get easier, thanks to a new computerized initiative called the International Benchmarking Clearinghouse. Housed at Houston's American Productivity & Quality Center, the IBC is compiling a data base of best practices and how-to guidelines. It also runs an electronic bulletin board, where IBC members can share information or post appeals for benchmarking partners. More than 100 companies, most on the BUSINESS WEEK 1,000 list, have already paid graduated annual dues of up to \$60,000. That could be a bargain, because 95% told IBC their benchmarking skills are still "rudimentary." And 80% also said benchmarking is fast becoming a condition of survival.

By Otis Port in New York and Geoffrey Smith in Freeport, Me., with bureau reports

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STRATEGIES

GIANNI AGNELLI'S LAST HURRAH

earing retirement, he's revamping Fiat and its aging fleet

For most of the 26 years he has run Italian auto giant Fiat, Gianni Agnelli has been the very image of corporate success. During the 1960s, he helped engineer a ground-breaking deal to build cars in the Soviet Union. In the 1970s, Agnelli somehow kept Fiat afloat in the midst of constant strikes and sabotage by radical political groups. By the end of the 1980s, the perpetually sunned tycoon had turned Fiat into Europe's biggest and most profitable carmaker, a symbol of Italy's emergence as world industrial power.

Now, just when he says he would prefer to spend more time with his eight grandchildren, Agnelli, 71, is facing probably the greatest challenge of his long career. With Fiat's existing models aging and its European market share sliding, sales and profits at its core car-making subsidiary, Fiat Auto, are plum-

meting (charts, page 78). Agnelli himself underscored the depth of Fiat's problems at a mid-November meeting of 1,100 senior managers of Fiat Auto. "We are going to pass through one of the most difficult, trying times in the history of our company," he said.

Fiat's aggressive chairman is fighting back with a bold plan to reclaim Fiat's status as Europe's top carmaker. The focal point of his blueprint for recovery is a huge investment of \$31 billion to drastically overhaul the industrial giant. Instead of cutting back, as many of its rivals are doing, Fiat is pumping billions into building new plants and refurbishing old ones. What's more, Agnelli is planning a barrage of new models to lure consumers back to the Fiat fold. The company expects to introduce no fewer than two new models a year through the 1990s, with the first of the

most promising models expected to roll off the assembly line by late 1993.

The sheer scope and ambitiousness of Agnelli's plan has prompted some analysts to describe the strategy as the European equivalent of General Motors Corp.'s Saturn Corp. investment in the 1980s. But the stakes for Fiat are even higher. "If it works, Fiat will be back," says Crédit Suisse First Boston automotive analyst Dagmar Bottenbruch. "If it doesn't, Fiat is probably finished."

Many of Fiat's problems can be traced to Europe's tenacious recession. With demand for new cars falling, virtually every European auto maker, from Sweden's Volvo to Germany's mighty Daimler Benz, is feeling the pain. And next year

could be worse, industry executives say. "For the overall European market outlook, we are revising our numbers downward every week," says Giorgio Garuzzo, Fiat's chief operating officer.

COMPLACENCY. The car company has also been battered by Italy's own unique set of economic problems. A vicious circle of high inflation, high interest rates, and high wages over the last few years led to galloping overhead at Fiat's huge factories in Italy. Since 1987, for example, costs associated with Fiat's 220,000-strong Italian work force increased on average 8% a year. "Just 60 miles from here," says Garuzzo, motioning westward across Fiat's hometown of Turin toward the French border, "labor costs have only been increasing 3% to 4%. For the last four or five years, our competitors have had it easy."

Even so, Agnelli and Cesare Romiti, Fiat's 70-year-old chief executive, bear some responsibility for the auto maker's dicey predicament. By 1988, Fiat was the top European carmaker, thanks in large part to the success of the econobox Uno. The following year, the company earned a record \$3.7 billion in pretax profits. And Agnelli was feted by Wall Street when Fiat shares were listed on the New York Stock Exchange in 1989.

That success, however, led to complacency—and carelessness—at Fiat. In-

The Corporation

creasingly, upper management in the hushed seventh- and eighth-floor executive suites at Fiat's headquarters became preoccupied with the question of who would succeed Agnelli and Romiti, according to company insiders. Political infighting also became a distraction. For example, Vittorio Ghidella, the marketing genius behind the successful Fiat Auto models of the late 1980s, was forced out in 1988 after a showdown with Romiti over the company's strategic direction. Ghidella wanted to focus more resources on Fiat's automotive business.

PAST GLORY. Before long, the boardroom intrigue diverted managers from the critical job of developing and marketing new models, with disastrous results. By mid-1992, according to *Fortune*, McGraw-Hill, Fiat's main bread-and-butter cars, such as the Panda compact, were almost 7.5 years old—by far the oldest fleet of Europe's Big Six auto producers. Models at rival Volkswagen, by comparison, had an average age of

4.4 years, while those of France's Renault were real youngsters at only 2.2 years. Consumers abandoned the Fiat nameplate in droves. Even in Italy, where 6 out of 10 Fiats are sold, market share plummeted to 45% this year, from 60% in 1989. Many Italians ended up

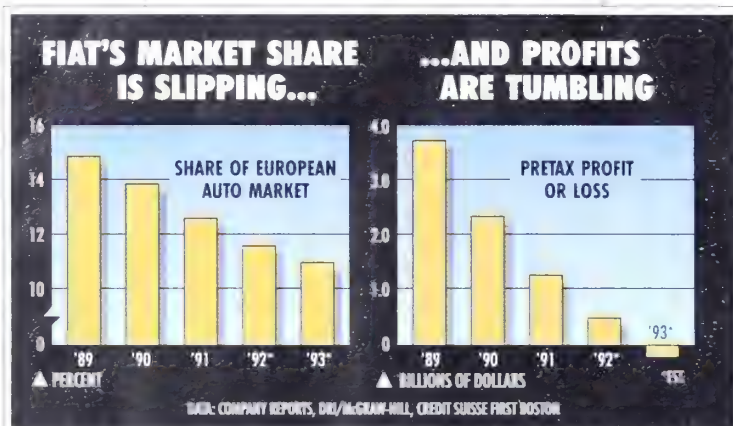
already started selling pieces of Fiat's far-flung business empire, the most diversified of any major carmaker in Europe. Earlier this year, Fiat completed the sale of its Telettra telecommunications division to France's Alcatel for close to \$1 billion. Next on the list

likely to be La Rinascente, Italy's largest department store chain, which earned \$70 million in 1991. Fiat has also unveiled plans to tap Italian and other European banks for \$500 million in loans.

Much of the cash raised by Agnelli is being plowed into new-model development in hopes that Fiat can reverse its slumping market share. The Cinquecento, a two-door subcompact, was unveiled earlier this year. Company executives

think they have a sure winner in another new economy car that will replace its best-selling Uno. Analysts who have seen prototypes of the car, code-named Type B, describe it as a slick eye-catcher. It had better be. Fiat executives are hoping that the new model will

tives think they have a sure winner in another new economy car that will replace its best-selling Uno. Analysts who have seen prototypes of the car, code-named Type B, describe it as a slick eye-catcher. It had better be. Fiat executives are hoping that the new model will



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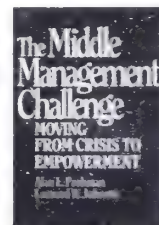
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—John P. Bush, Jr., Vice President, Corporate Research and Development, The Gillette Company



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their main workhorse through the 1990s. It will unveil the new model at Audi's auto show in Frankfurt.

A trove of other potentially hot new models will hit Fiat showrooms in 1994 and 1995, including powerful new Fiat Coupes and convertibles. That will drive the average age of Fiat models down to competitive 2.8 years by mid-1995, DRI estimates. True, Fiat will be pushing these new cars into a lackluster market. Fiat company executives believe they must revitalize the brand to hold off competitors. Says Fiat's Garuzzo: "I prefer to have better weapons when the battle gets tough." It's getting tough already, with rivals readying new, crunched-up models of their own. "Everybody is unveiling something," says analyst John Lawson of DRI.

RED SCOUT. Although it will take some time before the new models begin to have an impact, Fiat's sales are expected to get a nice shot in the arm from Rome's decision in September to devalue the Italian lira. With a depreciation of the lira against the French franc and the German mark, Fiat scored a 20% gain in price competitiveness—although inflation will in time eat into those gains. A recent agreement with Italian unions should also be helpful in the near term. The pact ends four decades of

automatic wage indexation and will help ensure that Italian labor costs remain moderate.

Even if Fiat climbs out of its morass, the turnaround campaign is something of a last hurrah for Agnelli and Romiti. Romiti, who has ruled the company's day-to-day operations as CEO since 1976, hasn't announced any retirement plans.

Chrysler, Peugeot, and Toyota have emerged as possible merger partners for Fiat Auto

But given his age, it's likely that his tenure is drawing to a close. Agnelli, whose family owns close to 40% of Fiat, says he'll step down from the chairmanship when he turns 73 in July, 1994. His designated successor: younger brother, 58-year-old Umberto Agnelli.

Although a vice-chairman at Fiat, Umberto has no real corporate responsibilities at the moment. But that could change quickly. On Nov. 17, Fiat announced a streamlining of upper management that gives more power to chief

operating officer Garuzzo—a move that many analysts see as the beginning of the transition of power at Fiat. Company insiders already expect Umberto to assume a more active management role within the year.

Looking ahead, many analysts are also betting that Umberto will be the one to finally broker a marriage between Fiat Auto and another major car group. Such a merger has so far proved elusive. In the 1980s, Fiat was close to linking up with Ford Motor Co. More recently, Chrysler Corp. and France's Peugeot have emerged as possible partners. There's also talk of a linkup with Japan's giant Toyota Motor Corp. Umberto, who heads the Italy-Japan Business Group and is a constant visitor to Tokyo, "has the perception that merging the auto activities is probably a necessity," according to one executive who knows the Fiat vice-chairman well.

Before that happens, however, Gianni Agnelli will have to get consumers thinking about Fiat again. Only then, analysts say, will the company be in a position to negotiate a decent deal with a potential partner. And only then can Italy's legendary car boss retire with his record of startling accomplishments relatively intact.

By John Rossant in Turin

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THE SEATBELT SIGN FLASHES FOR KLM AND NORTHWEST

Money woes buffeting the U.S. carrier could poison their merger

It seemed like cause for celebration. On Nov. 16, Northwest Airlines Inc. and KLM Royal Dutch Airlines got preliminary approval to merge their operations—the first time that a U.S. and a foreign carrier have been granted permission to act as one. The marriage could create a formidable airline with enviable global reach. But the champagne corks aren't popping in Minneapolis or Amsterdam yet. The folks at Northwest are too busy trying to figure out how they can come up with the money they need to stave off bankruptcy.

Northwest is pressing banks to let it borrow new money and restructure debt. It's negotiating with unions to win concessions. And it is hurriedly approaching other airlines about buying some of its assets. Northwest owner Al Checchi, whose 1989 buyout has left the airline with \$4 billion in debt, has angered labor and banks by refusing to dig into his own pocket for further equity. And even KLM is getting cold feet about drawing closer. The Dutch airline paid \$400 million in 1989 for a 49% stake. But without a further cash infusion, Northwest is in serious trouble. The carrier has less than \$300 million left—enough to last it only 90 days. Says Standard & Poor's Corp. analyst Philip Baggaley: "It's not a given that they can avoid bankruptcy."

OTHER PEOPLE'S MONEY. It's a wonder that Northwest has kept out of trouble even this long. Under CEO John Dasburg, the airline has improved operations, many industry experts say. But since the leveraged buyout, Checchi and his partner, Gary L. Wilson, have had to fly through some of the worst fiscal years in aviation history. Similarly leveraged carriers, including Midway, Eastern, and Pan Am, have gone down.

Checchi's talent for innovative financing has helped him squeeze through. In 1990, he got a \$500 million loan from Airbus Industrie by placing a huge order

for the European consortium's aircraft. And just a year ago, he caused jaws to drop when he persuaded the state of Minnesota to come up with \$835 million in financing.

Such wizardry can hold out for only



POWER PAIR? IMMUNITY FROM ANTITRUST IS A BIG HELP

so long. Of the state's \$835 million, \$375 million had been dedicated to building two maintenance facilities that Northwest would have managed. But Minnesota has put off those plans until the airline's fate appears more secure. KLM may be taking a similar stance. A source close to Northwest says KLM had offered \$600 million in new financing in late October, part of it in equity. But according to the source, KLM's board vetoed the deal on Nov. 6 for fear of further exposure to Northwest's losses—a report KLM denies. Northwest

lost a total of \$618 million in 1990 and 1991 and may lose \$300 million this year.

Checchi is scouring every possibility, though sources say he is working in the shadows while Dasburg conducts negotiations. Asset sales are likely. Northwest has had preliminary talks about selling some of its 61 slots at Chicago's O'Hare International Airport, which could fetch \$2.7 million each, say experts. One banker says the airline is trying to sell "anything that has good value that they're not fully utilizing."

COMPROMISE COMING? Northwest has also asked its unions for up to \$900 million in contract concessions, possibly in exchange for equity. So far, only the unions have put something on the table.

And the carrier has asked banks, KLM, and suppliers for \$1 billion in additional loans. Most of the banks are refusing. But in the hope of averting a Chapter 11 filing, they may compromise, says one banker, by bringing in new lenders *pari passu*, in which the new debt-holders get equal standing with the old.

Bankers Trust New York Corp., which has an equity stake to protect, is expected to offer \$50 million to "break the ice." Bank officials would not comment.

Industry experts say they will be surprised if KLM doesn't come forward with at least something. Without Northwest, KLM will have almost no presence in North America and would be doomed to remain a modest-size European airline. With KLM's access to the European market and Northwest's rich Pacific routes, the two carriers could be a powerful pair. Now, with immunity from antitrust laws, KLM and Northwest would be allowed to cooperate on pricing, which confers tremendous advantages in the marketplace.

Those benefits are still a long way off. Northwest's first order of business is finding the money to keep itself out of bankruptcy court. A Chapter 11 filing would undoubtedly reduce ticket sales and could wipe out KLM's \$400 million equity stake, possibly even jeopardizing the partnership. And that's something both carriers desperately want to avoid.

By Kevin Kelly in Chicago and Andrea Rothman in New York with Seth Pappas in Washington



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HELEN BALICK'S BAILIWICK IS A BACKWATER NO MORE

The Delaware bankruptcy judge's load includes two key airlines

In bankruptcy court circles, it has become the subject of an amused debate. Which judges are more overworked—the ones in federal bankruptcy court in New York City or the ones in Wilmington, Del.? The colossal bankruptcies of Macy's, LTV, and defunct Pan Am are all in New York. But the Delaware court is handling Continental, TWA, and Columbia Gas Transmission, to name a few. There's just one difference: In New York, there are five judges to split the caseload. In Wilmington, there's just one, U.S. Bankruptcy Court Judge Helen S. Balick. Her singular, albeit overworked, position makes her one of the most powerful judges in the country.

Balick's court was once a relative backwater. But the bill has come due for many overleveraged companies of the high-flying '80s and others caught in the '90s downturn. In overseeing the reorganization efforts of both Continental Airlines Inc. and Trans World Airlines Inc., Balick presides over the fate of one-fifth of the entire U.S. airline industry. And Columbia Gas Transmission Corp., with \$6 billion in assets, is among the biggest bankruptcies ever.

In all, the lone Delaware bankruptcy judge presides over 3,700 bankruptcies—nine of them megacases, involving corporations with more than \$1 billion in assets. "Believe me, I'd be much happier if each judge up there had more than I have," she says. "I didn't ask for this."

SUMMER HAVOC. But bankrupt companies certainly ask for her. Balick has a reputation as a "debtor's judge," whose liberal interpretations of bankruptcy law generally favor the bankrupt company over its creditors. That's why companies incorporated in Delaware often choose to file there instead of wherever they are headquartered. Balick's philosophy is to aim for the speediest possible reorganization.

Yet at times, her efforts on behalf of

debtors have been rebuffed. In 1991, she stunned the airline industry with a controversial ruling that blocked certain lessors from recovering planes even if Continental quit making payments. Her ruling was overturned by a higher court.

These days, TWA and Continental are clamoring for much of her attention. Both cases are unusual in one respect: Normally, the protective refuge of Chap-



ter 11 restores some measure of calm for distressed companies. But constant airfare wars have created a highly unpredictable environment. Just when TWA built a niche attracting penny-pinching business travelers, American Airlines set a new pricing structure that exploded the strategy. Continental had to abandon a reorganization plan submitted in February after a half-price fare war last summer wreaked havoc with its plan.

Now, Continental appears ready to fly. Balick should rule by January on its reorganization plan, which includes a \$450 million infusion from Air Canada and an investor group. Ailing Air Canada is hardly a strong rescuer. But most observers feel Balick will side with Continental and approve the match.

Drama is high in TWA's case, too. Balick recently granted approval for a emergency \$100 million loan. And she has also given preliminary approval to a plan that would let employees and creditors take control of the airline from owner Carl C. Icahn. Still, as TWA's troubles scare travelers away, many observers wonder whether Balick will see the airline through reorganization.

Lawyers say Balick rules with a wit and unusual dispatch. She calls herself "the last of a dying breed"—those who were admitted to law school without ever attending college. She earned her degree from the Dickinson School of Law in 1966. Not that she was unprepared before that: Balick spent her late teen years as a legal secretary and remains a whiz at legal shorthand, which helps her render decisions from the bench. Her collection of animal-shaped

SOME OF JUDGE BALICK'S MEGA-CASES

CONTINENTAL AIRLINES Houston-based carrier needs approval for investment by Air Canada and Texas investors before it can reorganize

TRANS WORLD AIRLINES Restructuring of this deeply troubled carrier would involve ouster of owner Carl Icahn and equity stake for employees

COLUMBIA GAS TRANSMISSION Lawsuits by creditors and delays involving 4,500 claims have bogged down reorganization efforts

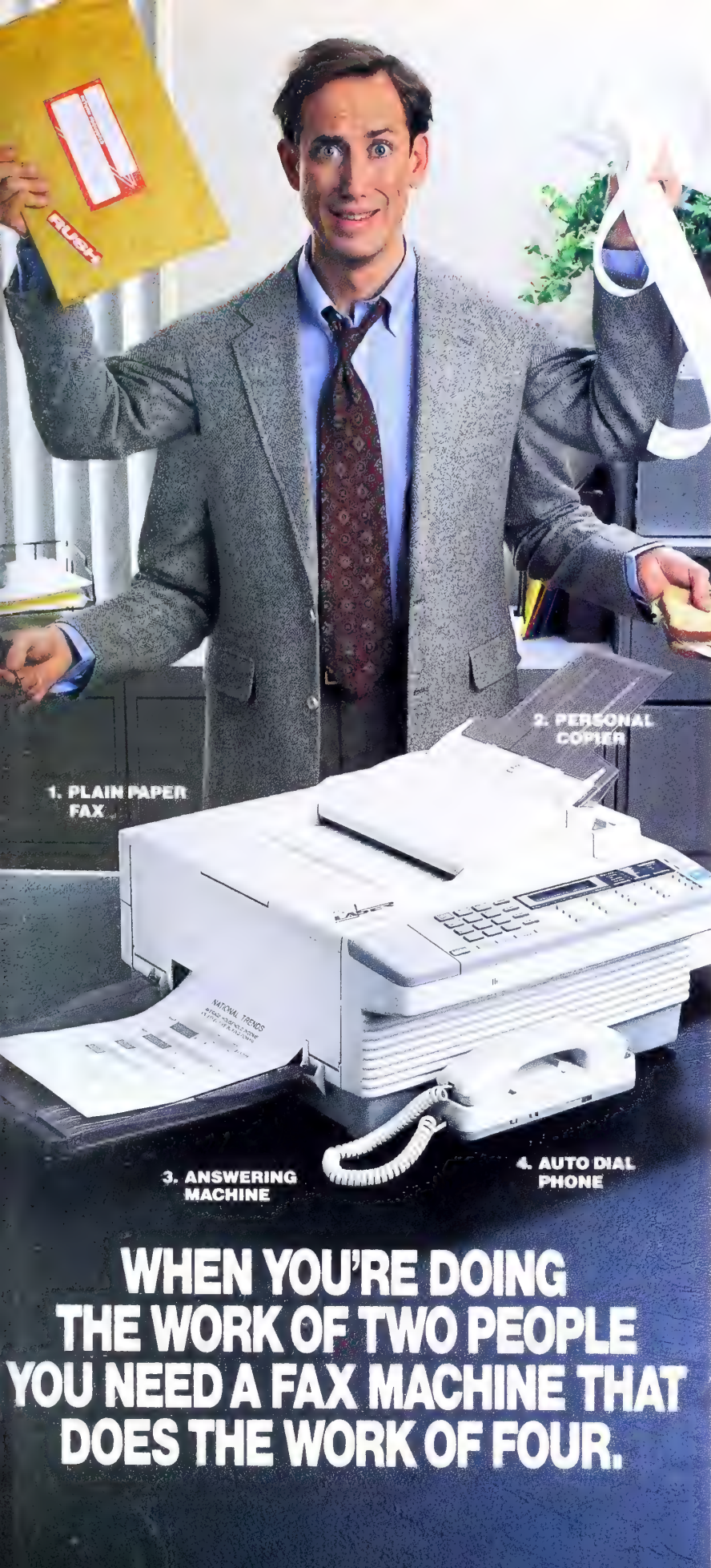
BUCKHEAD AMERICAN Formerly Days Inns of America; has since sold its brand name and assets to Hospitality Franchise Systems

DATA BW

paperweights in her chambers reveal childlike side. But she is not above playing the stern elder ("I'll never see you again" is all she'll reveal), chiding bickering lawyers with: "Now, children..."

However heavy her caseload, Balick and her husband, Bernard, a state judge, manage to safeguard one day a week for themselves. Every Saturday, they pack Brindle, their boxer-pit bull, in the car and set off to explore some remote spot in nearby states. "I would love to have a two-week vacation and not come back," she laughs. Given the number and complexity of the cases on her docket, she may have to wait until December, 1999, when her commission expires.

By Rita Katz Farrell in Wilmington, Del., and Andrea Rothman in New York



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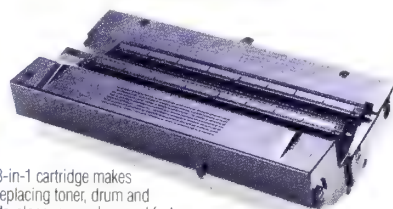
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**HEWLETT
PACKARD**

IN HOT PURSUIT OF FAT PENSION PURSES

Competition to manage soaring 401(k) plan assets is intense

In just a few short years, the tax-advantaged, employer-assisted 401(k) retirement plan has become the hottest employee benefit around. Some 15 million workers sock away thousands of dollars a year apiece. Salivating over the prospect of managing all that cash, the financial-services industry has become a battleground as banks, insurers, and mutual-fund companies fight for the business. And while mutual funds are gaining the most ground, the war isn't over.

The average balance in 401(k) plans at major companies has soared from just under \$9,000 to nearly \$30,000 in the past five years. Assets under 401(k) management are expected to grow from \$290 billion this year to \$441 billion by 1995. Investing and monitoring those nest eggs generates juicy fees: According to Hartford-based consultants Access Research Inc., total revenues for providers of 401(k) plans come to about \$1.5 billion and could grow to \$5 billion by decade's end.

Money managers are increasingly reliant on 401(k) money. "It represents about 75% to 80% of our total institutional business," says Vanguard Group Senior Vice-President James H. Gately. No wonder there's a marketing war for new accounts. "I'm being bombarded left and right" with sales pitches, says Ellen Foody, benefits director at Greenville (S.C.) textile company Delta Woodside Industries Inc.

'REVOLUTION.' Named for a section of the Internal Revenue Service Code, 401(k) plans currently let employees save up to \$8,728 of their pretax income toward retirement. Companies typically match the contributions by at least 50%, which is fully tax deductible. This



saves them billions compared with defined-benefit plans. And employees get the dual benefit of tax deferral and company matching.

Companies are inviting more sophisticated and active money managers to compete for their 401(k) business. A new Labor Dept. regulation requires employers to offer at least three diversified investment options, to educate employees about those options, to disclose re-

sults regularly, and to allow frequent asset-allocation changes.

Employees will be the main beneficiaries. They are already seeing vast and rapid changes in the makeup of the plans, with more investment choices, more information, and more control. "There's a revolution going on in terms of the way these plans are being offered to employees," says Bankers Trust Co. Managing Director Allan C. Martin.

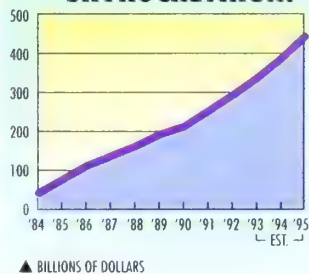
But employers win, too. On the one hand, they can unload the administrative headache of running the plans. At the same time, they can shift more of the expenses to their workers, because the fees paid to outside plan providers come out of employees' annual returns.

The big mutual-fund companies, such as Vanguard, T. Rowe Price, and Fidelity Investments, have set the tone in this competition. They've brought their retail-marketing know-how to a historically conservative business. Insurance companies had an early grip on 401(k) business, since they underwrote the guaranteed investment contracts that used to be the staple of most 401(k) plans. Indeed, participants in the plans still invest most of their money in fixed-income products such as GICs.

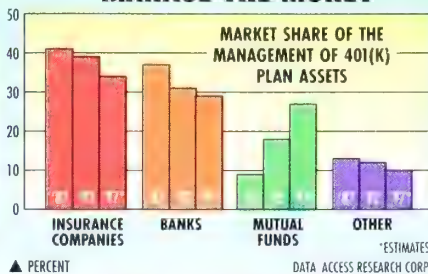
FRANTIC INSURERS. But highly publicized problems with some life insurers—and declining returns on interest-rate-based products—are prodding 401(k) investors to switch more of their money into stock funds. "Plans traditionally have been dominated by company stock and GICs," says Richard N. Pallan, senior managing director at Putnam Co. "That's not an appropriate asset allocation for younger investors." As more participants want to invest in securities, the old insurers could lose big. The mutual funds can provide daily valuation of account balances, toll-free telephone switching among investments, and customer service. Their approach has worked: In 1987, they commanded a 9% share of all 401(k) money. By 1992, that had reached 18%, and by 1997 it is forecast to hit 27% (chart).

But competitors are fighting back. Some insurers are changing their conservative ways. Aetna Life & Casualty, for example, is building up its mutual funds to compete more aggressively. Sun Life of Canada, meanwhile, is f-

401(K) ASSETS ARE SKYROCKETING...



...SPARKING A BATTLE TO MANAGE THE MONEY



ing on companies with fewer than 100 employees. That's a high-growth market. While more than 9 out of 10 very large companies offer 401(k) plans, fewer than a third of small companies do. Shearson Lehman Bros. Inc. recently won Labor Dept. approval to offer specific investment advice—such as how much to invest in bonds or stocks—to its 401(k) participants. "Over the next decade, we'll see most of this country's 401(k) business in the hands of a few big money managers who can do it all—fund management, employee education, investment advice, and help with distribution decisions," says Jeffrey M. Miller, Shearson's director of retirement plan services.

BETTER PACKAGES. Benefits consultants wouldn't agree less. They are battling one-stop providers by arguing that it's risky for a company to use one outfit for all of its needs, from record-keeping to money management. The consultants are pushing "alliances" that couple their administrative services with a smorgasbord of investments. Benefits manager Judy explains why she is leery of signing up with just one provider: "A lot of these groups are coming at us with a bundled package," she says. "I feel uneasy letting them take over everything." An alliance arrangement appealed to Aluminum Co. of America. When Alcoa introduced its 401(k) in 1985, there were three investment options: a fixed-income fund, a company stock fund, and a stock fund indexed to the S&P 500. That will change on Jan. 1, when Alcoa will begin using consultant Hewitt Associates for administration and bookkeeping, Mellon Bank Corp. as trustee, and Capital Management Corp. as money manager. Employees' three investment choices will grow to six, including one that invests in growth stocks and another in global equities.

Also thanks to the alliance, Alcoa employees will notice some state-of-the-art changes in processing, because Hewitt, Mellon, and Capital will share one mainframe data base for 401(k) management. Previously, workers had to change their investment-choice allocations by the 20th of a given month, then wait nearly two weeks for them to take effect. Now, Alcoa can submit changes by 4 p.m. on any given day and see the results the next day. The battle over 401(k) money doesn't stop when savers retire. In addition to signing up companies, money managers want to get their hooks into the employees themselves, so that retirees will stay loyal. At the rate today's 401(k) plans are growing, their nest eggs will just keep getting more alluring.

By Tim Smart in New Haven, Maria Hilly in Pittsburgh, and Karen Hurston in Atlanta

TRADING



TRADERS IN A TRANCE

Some Wall Streeters are giving hypnosis a go. Can't hurt, right?

First the wave hit Raj K. Bhatia, a currency trader. It was like an ocean wave, and it washed out of him all of the stress, all of the anxiety, all of the tensions that come from gazing at computer screens and making decisions and buying and selling. Then he walked into a garden, and it was the most beautiful place he could imagine. He remembered how it was to be a child, and to feel a blade of grass. He curled up beside gently gurgling waters, and he felt the comfort of the earth beneath him.

"Earth, air, sun, water, all combine their primal forces to give you courage, strength, and confidence," said Ruth Roosevelt, hypnotist. It was a chilly Thursday in early November, and Bhatia was reclining, apparently dead to the world, on a couch in her lower Manhattan office. "Now, Raj," she continued, "you know you have done your homework well, as you have throughout life, and you have developed systems

for trading currencies.... You can change the system, but at any given time you can trust the system, because you have done your homework...."

BIG FREEZE. Welcome to the Wall Street Hypnosis Center. Yes, a controversial therapeutic technique that has gained acceptance over the years, usually to help people do things like quit smoking and lose weight, is finding a new clientele amid the canyons of Wall Street. Traders may smoke themselves blue and overheat to the point of explosion; that's usually

O. K. so long as they are making money. But all too often they will freeze at the trigger, and a gyrating market blasts them to bits like an Old West gunslinger.

The problem is fundamental and can be found among even the best traders: They are human beings. As such, they have emotions that get in the way of their ability to coldly and swiftly commit or withdraw cash in the markets. "Your stored-up emotions can make you behave in a fearful way. You might be unable to trade at all," remarks Van K. Tharp, a North Carolina psychologist who specializes in counseling traders.

In hypnosis, the subject is put in a trance, then gently coaxed into a "post-hypnotic" course of action upon awakening. Some psychologists are skeptical about the value of hypnotherapy. Tharp, for one, favors other forms of treatment for troubled traders—but he acknowledges that hypnosis can be effective in the hands of a skilled practitioner.

Roosevelt is an old hand at both hypnosis and futures. Her fascination with the former began at age 12—when her mother warned her that "there was something called hypnosis, and don't let anyone ever hypnotize you." Roosevelt—the name is from her former marriage to a grandson of Franklin Delano Roosevelt—graduated from law school and worked on the Street, first as a broker and later as a futures trader at Prudential Securities Inc. Four

**SAYS ONE
MANHATTAN
BROKER:
'[HYPNOSIS]
CURBED MY
IMPULSIVENESS
AS A STOCK
TRADER'**



years ago, while still plying her trades on the Street, she was certified as a hypnotist and "practitioner of neuro-linguistic programming" (a form of hypnotism) by the New York Training Institute for Neuro-Linguistic Programming. She went into mesmerizing full-time only recently, after leaving Prudential.

Her clientele is small but loyal, and the ones who would talk offered up glowing testimonials. For example: "[Hypnosis] curbed my impulsiveness as a stock trader," says one client, Kathleen M. Cuomo, president of Equities Trading Corp., a Manhattan brokerage. "Sometimes things get pretty hectic around here, and it's easy to trade without really thinking."

For Bhatia, the problem isn't impulsiveness but the opposite—overcaution. He is president of New Generation Capital Management Corp., a small futures-trading boutique in New Jersey. Bhatia bases his trades on a computerized trading program that he designed himself. In September, when the British pound collapsed, his program worked—but his nerve failed. He shorted the pound at \$1.94; it eventually fell to \$1.50, but he covered at \$1.85 even though his trading system predicted that the best was yet to come. "There was no reason to go out of it," Bhatia recalls, "except that there was all that money on the table, so why not take it?" He went short again at a lower price but lost some \$90,000 because of his temporary lapse of will.

'FEEL THE CHAIR.' Bhatia sees Roosevelt about once a week and pays \$100 per hour-or-so session. Recently, in his fourth session, he was transported back to the trading room. "Feel the chair beneath you," said Roosevelt. "You hear the beep, and you see the signal, and you feel good about it, and you pick up the phone, and you put in the order. Do it now—hear the beep, see the signal, see what it is telling you to do, pick up the phone, and enter the order. Each time you do it, it gets easier and easier. . . . Whenever you touch your thumb to your forefinger, a feeling of confidence will suffice your being."

Well...it's starting to work for Bhatia and is already saving Cuomo, she says, from her own impetuosity. Hypnosis has persuaded her not to trade beyond her means and to stay out of the risky options market, even though she relishes the action there. And when the trading craziness begins—"I just snap my fingers," says Cuomo, "and say to myself, 'Am I stressed, or am I alert?'" It's all a byproduct of that beautiful garden—and on Wall Street, nothing is more comforting than a gently gurgling stream of profits.

By Gary Weiss in New York

INVESTIGATIONS

DATE: JANUARY 9, 1985

SUBJECT: CONVERSATION WITH JOHN GRAHAM AND MISCELLANEOUS MATTERS

On our return from Longleaf, the following was discussed:

- I. Pru-Bache Income Fund Distributions - John agreed that 15% was the appropriate percentage for the P-1 distribution. He was, however, concerned about the level of our subsidy to all those partnerships. He asked that we arrange for bank lines of credit to those partnerships, and camouflage, to the extent we can, the purpose of the use of proceeds. I agree with his suggestion, and assuming you have no problems, we are

TO: JOHN J. GRAHAM
ANTON H. RICE II

FROM: MARK W. FILES

DATE: DECEMBER 11, 1987

SUBJECT: RESERVES

you know, I have squirreled away some cash over the years (recently) to cover various items. As it has turned out, some of those reserves may be excessive, as they are real or estimated.

We have several alternatives with the excess accruals:

- Return them to the Partnerships for use in distributions, etc.
- Retain for future bonuses.
- Transfer to the Rabbi Trust for Deferred Compensation.

FRESH RUE FOR THE PRU?

New documents could unsettle a settlement against its brokerages

For Prudential Securities Inc., the settlement was great news. For years, the brokerage subsidiary of Prudential Insurance Co. of America has been plagued with class actions by angry investors who alleged the firm had committed fraud in selling interests in limited partnerships throughout the 1980s. On Nov. 16, Prudential Securities and Graham Resources Inc., a Covington (La.) energy company, reached a deal with plaintiffs in one of the largest and potentially most damaging suits. They agreed to pay \$37 million to 120,000 investors who had bought \$1.46 billion worth of interests in 35 separate Pru-Bache Energy Income funds, just 1.9¢ per dollar of their original investment. "We got a good settlement," insists lead plaintiff counsel Edward A. Grossmann. "There are no guarantees we would

have won at a trial years down the road." Plaintiffs' attorneys are asking for a 25% cut.

But the proposed settlement may not be the end of the matter. Internal Graham documents, which BUSINESS WEEK recently received from anonymous sources, contain evidence of potential serious wrongdoing by Graham that goes beyond allegations in existing lawsuits. They suggest that Graham executives may have inflated reported returns to investors—and siphoned off investor profits to themselves. Investors who don't want to accept the settlement must opt out by Jan. 22 and can initiate independent actions. The documents also could be of interest to U.S. District Court Judge Marcel Livaudais Jr., who will rule on Feb. 9 whether the settlement should be approved.

Pru Securities spokesman William J. Ahearn says any comment on the documents should come from Graham. "We first saw them several weeks ago," says Ahearn. Graham Resources Chairman John J. Graham declined to comment on them. And attorney Grossmann doesn't view the documents as an impediment to settling.

CK RETURNS. The current settlement seems beneficial to Graham, which 4.9% owned by Prudential Insurance. Under its terms, all 35 partnerships will "rolled up" into a new firm, Graham Energy Resources Inc. Graham executives will maintain day-to-day control. A new board of directors, including three Graham executives, will have the power to sell the company's assets or operate it independently. John Graham will receive \$5,000 a year as chief executive.

The new documents could jeopardize these arrangements. In one, dated Jan. 1985 (illustration), Graham's chief administrative officer, Mark W. Files, outlined a plan to artificially maintain a 15% payout rate on the first three energy funds. Returns had fallen below 15%, Files suggested that Graham resort to bank loans to finance the difference. Good track record from the first energy funds was crucial in attracting investors to later funds. Files was not available for comment.

Such a strategy, if implemented, may raise questions about whether it was adequately disclosed to investors. Files's memo indicates that an effort might be made to "camouflage" the source of the payouts from executives at Prudential Securities. The memo said Graham should "ask 'forgiveness rather than permission' if Pru-Bache sees through the borrowing plan."

Files's memo suggested the payouts should be bolstered by what he referred to as "unexpended capital," presumably money collected from investors. In effect, he would be giving investors back their own money disguised as a superior payout rate. Says a former Pru Securities broker who read the memo: "It was an onzi scheme right from the start."

July 19, 1985, letter to Graham executive Anton H. Rice III, obtained by ENR WEEK, suggests that both Prudential Insurance and Pru Securities were aware that distribution rates were being inflated. Written by Matthew J. Chanin, a Prudential managing director, is a copy to a Pru-Bache executive. The letter agreed to a plan for Graham to advance its own cash to maintain a payout rate in three of the funds. A Prudential spokesman says Chanin's letter was intended to authorize "anticipatory payout levels based on [the then] crude oil and gas price levels."

In another Graham memo, dated Dec. 1987, to Graham and Rice, Files said

he had "squirreled away" \$2.6 million in excess cash and wanted to know what to do with it. It listed three options: return the money to investors; keep it for bonuses; or transfer it to the "rabbi trust," a retirement plan for Graham executives. Asked about the memo, John Graham declined to say where the squirreled funds came from or ended up. "To talk about any one of the documents out of context would not be fair," he says. Rice could not be reached for comment.

Graham has recently encountered troubles with regulators. In October, the National Association of Securities Dealers (NASD) fined Graham's securities unit \$250,000 for several securities violations and expelled it from the NASD. Graham didn't admit or deny the charges.

So far, Pru Securities has avoided regulatory problems. But due to Prudential Insurance's 4.9% stake in Graham, the actions of Prudential and Graham executives may figure in ongoing NASD and Securities & Exchange Commission probes into Pru Securities' limited-partnership sales practices.

Investors are now deciding whether to accept the settlement or pursue independent litigation. Houston attorney George M. Fleming will recommend that his 1,300 clients opt out of the settlement. "I'm not impressed," he says. Others will argue at the Feb. 9 settlement hearing that it is unfair. But unless Judge Livaudais knocks it down, that's what most investors will have to live with.

By Chuck Hawkins in Atlanta

BANKING

BANKS THAT BELIEVE IN MANY TOWNS CALLED HOPE

Community development banks have an advocate in Clinton

Four years ago, J. David Hair was getting nowhere in his attempts to persuade local bankers in Hot Springs, Ark., to take a flyer on his fledgling business, K-Tech Inc. The 50-year-old chemist's luck changed, however, when he visited Southern Development Bancorporation in nearby Arkadelphia.

Impressed by the entrepreneur's proprietary method of making wear-resistant ceramic coatings for machinery, Southern Development agreed to provide an initial \$200,000, which enabled Hair to launch his business out of two Quonset huts. "Everybody else wanted to put in \$10,000 and make a zillion dollars with no risk," recalls Hair. "Southern was willing to take the risk with us."

'MICROLOANS.' That may be because Southern is no ordinary commercial bank. It's one of a handful of community development banks nationwide whose mission is to stimulate the economy in areas where other bankers are loath to lend. It was founded in 1988 with \$12 million in startup capital from private donors, such as

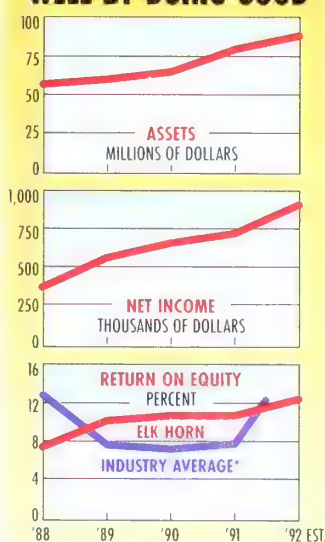
the Winthrop Rockefeller Foundation, that were eager to bring jobs to rural Arkansas and were willing to limit their return to the inflation rate.

The idea has been working for Southern Development as well as for David Hair. In 1991, Southern's commercial bank unit, Elk Horn Bank & Trust Co., posted a return on equity of 10.68%, well above the industry average of 7.84%. Assets and net income have been growing steadily (chart).

Inspirational? Sure. But there's more to the story. Little Southern has powerful friends. President-elect Bill Clinton was instrumental in setting up the bank, and Hillary sits on the board. Her former law firm has done legal work for the bank. Clinton hopes to use Southern as a model for new-style financial institutions that will pump loans into depressed communities around the nation.

During the campaign, Clinton vowed to create 100 community development banks as well as 1,000 separate "micro-loan" programs that make small, short-term loans to the poor. Banks such as Southern "have

ELK HORN: DOING WELL BY DOING GOOD



*DATA AVAILABLE THROUGH 6/92
DATA: SOUTHERN DEVELOPMENT BANCORP., SHESHUNOFF INFORMATION SERVICES INC.

helped show other lenders that community lending can be done profitably," says Marc A. Weiss, a Columbia University professor and informal Clinton adviser.

Development banks are a typically Clintonian device to get maximum leverage for government spending through the creation of public-private partnerships. Under his proposal, the government would help launch a new institution by providing either matching funds or tax incentives for private investors. After that, the venture would be on its own.

Already, though, the mere idea of government-aided development banks is raising the hackles of commercial bankers. They argue the concept could turn

under the Community Reinvestment Act of 1977.

Southern Development's role goes beyond mere bank lending. To help launch Hair's business, Southern's nonprofit venture-capital arm, Southern Ventures Inc., invested \$375,000—in exchange for convertible preferred stock worth 33% of K-Tech—that allowed the chemist to begin purchasing equipment. Southern's Elk Horn Bank & Trust and an affiliate came in afterward with a loan of \$225,000 for machines and working capital. With Hair's business having outgrown the Quonset huts, Southern's real estate development arm, Opportunity Lands Corp., has offered a \$325,000 loan to build a new plant that will allow Hair

relies more on peer pressure than credit evaluations or collateral to assure repayment. Good Faith groups participate in small "borrowing circles" that meet weekly to share experiences—and approve any loan requests by member vote. No group member can apply for a large loan as long as any other member is behind on his or her payments.

CAUTION. Despite Southern's success, some community activists question whether it can be replicated on a large scale. Other development banks have had trouble coming up with a lending strategy that really helps their communities. South Shore Bank of Chicago, a pioneer in the field, has rejuvenated whole blocks of south Chicago with



■ 'Everybody else wanted to put in \$10,000 and make a zillion dollars with no risk,' says K-Tech's Hair, who is now expanding production. 'Southern was willing to take the risk with us'

into another Farm Credit System, the federal program that incurred huge defaults on agricultural loans in the early 1980s and needed a temporary infusion of \$4 billion from the government. What's more, commercial lenders argue that they could do the job themselves were it not for the regulatory restrictions that they contend discourage lending to riskier borrowers. "Why not unleash the present banking system rather than creating a new and parallel system?" asks Kenneth A. Guenther, executive vice-president of the Independent Bankers Assn.

GOOD FAITH. Clinton advisers insist that the new banks would complement, not compete with, commercial banks. Indeed, some aides hope existing banks would form partnerships with the new community banks, perhaps buying stock in the new companies to meet their obligations

to expand his production and hire five new employees.

Not all of Southern's programs have worked right off the bat. Southern's Good Faith Fund, which has made \$170,000 in microloans to allow low-income individuals to start their own businesses, racked up high losses early on. "We were the new kids on the block," admits Good Faith's executive director, Julia Vindasius. "Every scam artist on the block took advantage of the fact that we would work with them."

To discourage fraud, Good Faith reduced initial loans from \$5,000 to \$1,200. And would-be borrowers must now sit through 21 hours of instruction in basic business skills. That has helped the program cut loan losses from 30% during that first year to just 3%.

The Good Faith program, modeled after the Grameen Bank of Bangladesh,

housing-rehabilitation loans, but it spent years in a mostly futile effort to help small businesses take root in the neighborhood. "If people have the idea that they can come in a neighborhood and within a short period turn around a [depressed] situation that has taken years to develop, they're wrong," reflects South Shore Senior Vice-President Joe Shapiro.

With the savings and loan debacle fresh in the public's mind and many commercial banks facing foreclosure, Bill Clinton is likely to move cautiously in setting up a new and potentially risky program. But down the road, institutions such as Southern could be useful in providing financing to poor but worthy borrowers who have been ignored for years by conventional lenders.

By Dean Foust in Arkadelphia, Ark., with David Greising in Chicago

BY GENE G. MARCIAL

IS THAT RON PERELMAN COME A COURTIN'?

Damon, a major provider of laboratory-testing services to the medical profession, may soon find suitors knocking at its door. Whispers are that Damon has been informally approached by financier Ron Perelman and executives of a European drugmaker to discuss a merger or acquisition.

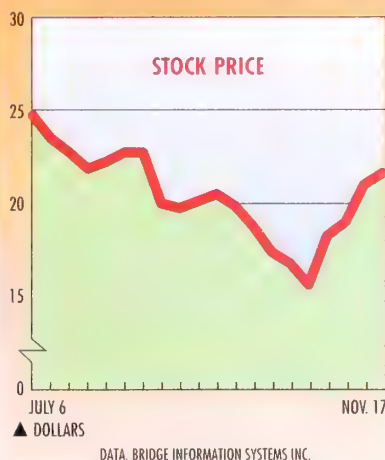
Perelman is chairman and 21% owner of National Health Laboratories, operator of 16 testing labs and 341 specimen-collecting stations. If it were to acquire Damon, National Health would become the major player in the industry. Damon, which has been growing recently through acquisitions, now owns 12 regional labs in the U.S. and Mexico, plus 50 smaller labs and 135 collection centers.

Damon Chairman and CEO Rob Ron would neither confirm nor deny that he had been approached by Perelman or others. But Joseph Cohen, who heads the Garnet Group—an investor partnership—and owns a 9.2% stake, says: "Based on its fundamentals, Damon is a very attractive merger target for larger domestic and foreign companies." And National Health President and CEO Robert Draper says: "We are always looking for sensible acquisitions." Perelman denied comment.

WIFT REACTION. Some investors have started to react, notes one New York fund manager. "We have noticed a hell of corporate buying in the stock recent weeks, and some, we believe, have emanated from overseas." In a merger, Damon "should fetch a price of \$35 to \$38 a share," this pro figures. Like other health-care companies, Damon, based in Needham Heights, Mass., has taken a hit since summer. Trading at 25 a share in early June, it started slipping in July and by mid-October was down to 16. Thanks to an earnings turnaround, the stock has picked up since, rising to 21.

Another Damon bull is Oppenheimer analyst Glenn Reicin, who rates it an aggressive purchase "despite investor nervousness toward health-care stocks. Given its projected per-share earnings growth of 35%, Damon is dirt cheap," says Reicin. Earnings, he figures, will be to \$1.03 a share in 1992 and \$1.48 next year, vs. a 98¢ loss last year.

DAMON: ON THE RECOVERY TRAIL



Much of the worry over health stocks stems from President-elect Clinton's promise to cut medical costs. Damon isn't dependent on price increases for its growth, notes Reicin. So he thinks the impact of reduced pricing for lab tests—if it happens—on Damon's earnings will be minimal. Reicin believes that Damon will benefit from an increased volume of tests the company will pick up from the smaller, less efficient labs, which won't be able to survive.

A Big Board company in the 1980s, Damon was acquired by an investor group in 1989. Three years later, the company went public again. Its equity has ballooned from \$50 million in 1989 to \$350 million, and its debt has declined from \$270 million to \$157 million.

'QUINTESSENTIAL CLINTON STOCK'

Despite all the hullabaloo about Clinton's promise to spend massively on infrastructure, shares of Fluor, one of the nation's major engineering and construction companies, have made little headway. The stock is stuck at 43, where it was last May. Some analysts have cut their 1993 estimates and downgraded the stock to a hold from a buy.

But that's just dandy for investment adviser Steve Leeb, editor of *The Big Picture* market newsletter, who has been buying shares. "Fluor is one of the quintessential Clinton stocks if there ever is one. It will be the biggest beneficiary of Clinton's infrastructure spending program," says Leeb. He sees Fluor as "a \$55 stock in the next

six months and a \$75 stock in two to three years." Leeb expects Fluor to win a lot of the contracts for rebuilding roads, highways, and bridges.

Already, Fluor's work backlog has rapidly risen, to some \$13 billion in signed contracts so far. He expects the backlog to grow 15% to 20% annually over the next five years. Fluor is a major player not only in construction but also in environmental cleanup. The Energy Dept. recently awarded Fluor a contract to manage the cleanup of that agency's uranium production facilities in Fernald, Ohio. This \$2.2 billion project is part of a huge nationwide program to clean up such sites under the jurisdiction of the Energy and Defense Depts.

Leeb sees earnings rising to \$2.30 a share in 1993 and \$2.80 in 1994, vs. 1992's estimated \$1.70.

A HOT HEALTH COMBO

When National Rehabilitation Centers agreed to acquire Healthfocus in late October, it was as if Jonah had swallowed the whale. But the stock of National Rehab, which is just a third the size of privately held Healthfocus, has become a giant winner. In just a month, its shares have climbed to 15 from 9. And the stock is now worth even more, say some pros.

What's so hot about the combo? "The acquisition makes National the largest pure play in the outpatient rehab business," says analyst Joseph Millsap of Morgan Keegan. He sees the stock climbing to 24 in a year.

Revenues for the combined companies, which provide outpatient services for injuries and disabilities, are expected to hit \$115 million this year and \$140 million in 1993, figures Millsap. Earnings, he estimates, will come in at 80¢ a share next year and then jump to \$1.10 in 1994.

President and CEO Bill Youree says on-site services provided by National's 41 centers in 11 states are strong in private clinics. Healthfocus' main strength, on the other hand, is in servicing nursing homes and acute-care hospitals. Healthfocus owns 63 outpatient centers and services 800 nursing homes in 13 states and 75 hospitals in 27 states. "With its bigger capacity, the new National will be in a better position to serve as a regional contractor for hospitals and other health-care providers," he adds.

Developments to Watch

EDITED BY EMILY T. SMITH

THIS PROBE IS SO TINY IT CAN ENTER A SINGLE CELL



For years, scientists have talked up the potential of nano-technology, or devices such as microscopic robots. Now, a chemist at the University of Michigan has developed one of these itsy-bitsy items, a fiber-optic sensor that can monitor the chemical properties, such as acidity, inside a living cell without damaging it. The new sensor, one-

thousandth the size of existing fiber-optic sensors, could also be used to test the effects of new drugs on single cells.

A manufacturing technique called near field photopolymerization, developed by Raoul Kopelman, professor of chemistry, makes the probe possible. The polymer tip that enters a cell is about 20 times the size of an average molecule. To make it, researchers shine a beam of light into one end of an optical-fiber probe that is coated with aluminum. Light emerges from a small opening in the far end of the probe, which rests in a solution of molecules called monomers. The light induces a chemical reaction between the monomers and the molecules on the end of the probe, which "grow" the polymer tip.

A CHEAPER ROAD TO CLEANER CAR EXHAUST

The 1990 Clean Air Act requires fleet owners in large cities to operate a certain number of alternative-fuel vehicles to help curtail low-level ozone. That's a headache for companies, partly because making the switch is expensive. Suddenly, however, there's a greater incentive to consider switching to natural gas.

An electronic device developed by the Gas Research Institute in Chicago can cut the cost of converting cars and trucks to natural gas by up to 33%, or \$660. Typical conversion kits include a computer to regulate fuel flow. But it duplicates a computer that is standard on virtually all late-model vehicles. GRI's device, called Translator, makes use of the existing on-board computer. For instance, it modifies the electronic signals for gasoline fuel injectors so they can regulate natural-gas injectors. The result is a less expensive conversion to a cleaner, more efficient vehicle, says GRI. The Translator is being built by DAI Technologies Inc. in Lisle, Ill., and will be available next March at companies that specialize in conversions to alternative fuels.

LAYERED TAPE MAKES SUPERCONDUCTORS MORE SUPER

Coming up with methods to make high-temperature superconductors into wires that conduct high levels of electricity is one of the most vexing hurdles to developing practical uses for the valuable ceramic materials. Extruding the powdered superconductors through a silver tube is one of the most promising methods. But in this technique, the crystals are

aligned randomly, which impedes the flow of electric

Now, researchers at Lawrence Berkeley Laboratory have made layered tapes that can carry 10 times as much current as the drawn wires. The Berkeley team starts with a foundation of nickel alloy. It then deposits a layer of zirconia on top. As the zirconia crystals grow, they are bombarded with an electron beam to make them optimally aligned. Then the superconducting material is deposited on top of the zirconia crystals. The superconducting crystals automatically align themselves with the zirconia crystals. The tapes made this way can conduct 600,000 amps per square centimeter, sufficient for uses such as superconducting magnets. But the technique needs to be refined to produce large quantities of the tape at lower cost.

FOCUS THAT ULTRASOUND—AND GET CLEARER MEDICAL IMAGES

Ultrasonic waves are used in many key technologies, including medical imaging, sonar, and nondestructive testing. But for decades, the quality of these transmissions has been compromised because a single ultrasound beam is accompanied by a field of sound beams that fan out in all directions, much like the spray of water from a garden hose. Now, Mark A. Breazeale, a senior research scientist at the University of Mississippi, has fashioned a transducer—the device that converts electricity into sound waves—that can produce a single, focused ultrasonic beam. The result could be clearer pictures of fetuses, better underwater signaling, and more.

The advance, says Breazeale, is based on complicated mathematical calculations that control how quickly the transducer vibrates. "People have been trying to do this for 20 to 30 years," he says. The single beam will give a more accurate view of objects because fewer irrelevant reflections will bounce back and muddy the image. Breazeale says he plans to apply for a patent soon. A major manufacturer of ultrasound equipment has agreed to pay for patenting the invention, which it will get rights to the technology.

DESIGNER DIETS THAT DOWNSIZE THE DANGER

For millions of overweight Americans, yo-yo dieting is worse than an annoyance. Studies at Yale and Harvard Universities show that people who lose and gain back weight die earlier than those who keep their weight constant. Now, an Agriculture Dept. researcher has a simple way to help people avoid dangerous weight swings.



In a study of young women up to 50 pounds overweight, USDA research chemist Nancy L. Keim found that the higher a person's initial level of free fatty acids—stored fat released into the bloodstream by exercise—the more fat she could expect to lose in a three-month period. Keim developed an equation that should allow a doctor to calculate fat loss from diet—and prevent people from trying to lose more than they can realistically keep off. But further tests are needed on the greatly overweight people—and on men, who process fat differently from women—before the equation is ready.

A GLEAM OF LIGHT FOR SOLAR ENERGY

Could a recent advance in materials lead to cheap, clean power?

One day last July, while walking across the Princeton University campus, Lori Vermeulen noticed the chalky white powder was carrying turned blue in the baking sun. The chemistry graduate student knew that such compounds become brown, black, or red when they decompose—but blue was another matter. “I wasn’t sure what was happening,” she recalls.

No one was more amazed than Vermeulen and Mark E. Thompson, her adviser and an assistant chemistry professor, when they found what caused the color change: Sunlight excited electrons to jump from one molecule to another, creating a positive charge and trapping energy. Even more surprising, the material stayed blue for hours, meaning that the energy remained stored. The researchers published their work in August in the journal *Nature*. And now they’ve started the arduous task of trying to transform this novelty into an energy source.

CATCHING RAYS. Indeed, Vermeulen’s campus stroll may mark a leap forward in the 30-year search for materials that capture the sun’s energy and convert it into a clean source of electricity and heat. Photovoltaic systems, which absorb sunlight and transform it into electricity, don’t store energy and are expensive. So researchers continue to look for inorganic materials that can mimic the way chlorophyll in plants captures, stores, and releases energy at the molecular level. Scientists have several prospects, but none stores energy as long as Vermeulen’s and Thompson’s. Their powder “raises the prospects for developing inexpensive alternatives to store and convert so-



VERMEULEN AND THOMPSON: SERENDIPITY AS WELL AS SKILL

lar energy into electrical or chemical energy,” says Prabir Dutta, professor of chemistry at Ohio State University.

Like many discoveries, this one came about as much through serendipity as skill. Thompson, with Vermeulen’s help,

was testing the theory of electrochemist Rudolph A. Marcus, who was the winner of this year’s Nobel prize in chemistry. Marcus’ theory helps predict the speed of chemical reactions, such as photosynthesis, that involve the exchange of electrons between molecules and that underpin the workings of batteries and fuel cells. Thompson was using a compound of common materials, zirconium phosphonate and viologen halide, to study the rate of those transfers. According to conventional chemistry, this concoction shouldn’t store energy.

Yet it does. After being dissolved and heated, zirconium phosphonate molecules crystallize into layers, with the viologen molecules sandwiched between them. Chloride ions from the viologen halide dot the surface of the zirconium phosphonate. The researchers still don’t know the precise reaction that stores the energy, but they have an idea (diagram). When light strikes the compound, it causes an electron orbiting a molecule—a chloride ion, they think—to jump out of its orbit into the viologen layer. Then, the zirconium phosphonate layer gives up an electron to replace the one lost by the chloride. This electron transfer captures the sun’s energy and causes the material to turn blue.

TO HAVE AND TO HOLD. What is interesting about the material is that the reaction doesn’t reverse

quickly. One of the big difficulties in finding materials that store the sun’s energy has been keeping electrons from immediately returning to their original places and releasing stored energy as heat, the way a black surface does after sitting in the sun. Last year, researchers at Argonne National Laboratory developed a material that can store solar energy for 0.004 second—about 10 times as long as the best earlier systems. In January, Israeli chemists revealed a porous-glass system that keeps electrons separated for several hours. But in Vermeulen’s and Thompson’s compound, electrons stay separated for months. That gives you “the chance to do the follow-up chemistry” needed to release the energy, says Thomas E. Mallouk, chemistry profes-

STORING ENERGY FROM THE SUN

Chemists at Princeton University have developed a novel material that stores the sun’s energy. Here’s how they think it happens:

Much like a club sandwich, the material is composed of layers of crystallized zirconium phosphonate with layers of viologen halide molecules between them. When light hits the compound, the energy causes

electrons from the phosphonate layer to leap to the viologen. The

transfer of the electrons creates the potential for energy. The next challenge: Getting that energy out in a useful form



DATA BW

sor at the University of Texas at Austin.

It will take fancy science to accomplish that, but Thompson and Vermeulen are plunging ahead. By tinkering with the structure of the material—substituting different metals for zirconium, for instance—they are trying to discover which molecules are giving up and which are accepting electrons. Once they've identified those, it will be easier to improve the properties of the material.

Boosting efficiency is key. Now, the material absorbs about 10% of the sunlight that hits it—vs. up to 26% for photovoltaic cells—because it absorbs only ultraviolet light. By doing minor tinkering and producing the material as thin films, the researchers think they can coax the compound to absorb visible light, where most of the sun's energy is concentrated. That could help boost the rate at which it converts sunlight into energy—now only about 3%. Photovoltaic cells do 10% to 12%, but then the new material "is far cheaper than those technologies," says Thompson.

BIG SPLASH. The most daunting challenge will be extracting the stored energy. The dense molecular structure of the material, which traps the energy, also keeps out chemicals that could set off reactions to harvest the transferred electrons. The researchers hope to make the material more porous by replacing some of the viologen with smaller molecules to create cavities that allow other chemicals to penetrate.

If this works, there could be a number of ways to convert the stored energy. For instance, says Thompson, water might be pumped through the material, where it would be catalyzed by a metal such as platinum into hydrogen, which could be captured and burned as a fuel. The scheme would cost less than breaking down water with photovoltaic cells, which solar energy enthusiasts have long advocated.

As to when this might be achieved, Thompson shrugs: "Science proceeds in leaps. You don't know when to expect them," he says. In the meantime, the 29-year-old Vermeulen, a third-year PhD student, is still getting used to the splash her dissertation project has made. Few of her peers can boast of publishing work in such a prestigious journal as *Nature*. "I still feel overwhelmed by things I don't know," she says.

What they might find out is intriguing others. Thompson described their work in October at an energy conference in Italy. Even in these days of tight funding, support for their research is likely. "There will be money chasing them," says one Energy Dept. official. Vermeulen and Thompson face long odds. But that's an occupational hazard when the goal is achieving leaps in knowledge.

By Emily T. Smith in Princeton, N.J.

Information Processing

COMPUTERS

'THE GREAT DIGITAL HOPE' COULD BE A HEARTBREAKER

Apple's hype of 'personal assistants' leads to disappointment

Last January, Apple Computer Inc. Chairman John Sculley painted a vivid word picture of a new kind of consumer product. Before an audience of gadget makers from around the world at the Winter Consumer Electronics Show, he described a handheld device he dubbed a "personal-digital assistant"—part electronic organizer, part computer, part communicator that would, he said, merge consumer electronics, computers, and telecommunications. For personal-computer makers, whose main business was cooling off, the vision of this hot new market was a sight for sore eyes.

Fast-forward 10 months, though, and the picture begins to blur. Since previewing Newton, a prototype of the first Apple personal-digital assistant, or PDA, in May, Sculley has backpedaled. Rather than setting off a mass-market bonanza, Newton sales are expected to build slowly, starting with corporations willing to pay \$1,000 for a productivity tool, rather than with consumers, who will likely hold out for cheaper gadgets. And, Apple acknowledges, production has slipped a few months from the original "early 1993" rollout date.

Apple's shift leaves all the other computer companies that have been hatching PDA plans—from IBM to AT&T to Tandy—in an awkward position. Because Apple defined the concept so clearly with Newton and set expectations so high, the others now are selling against a product that exists only in Apple's lab but manages to dominate the market. Newton is like Big Foot, jokes Bruce L. Claflin, general manager of mobile computing at IBM Personal Computer Co.: "Many people talk about it but sightings are rare. It was overhyped and created expectations from which not only that company, but

every other company, has to step back.

By now, it's clear that it won't be until 1995, at the earliest, that a real market for PDAs emerges. Part of the problem is doing all the things that a PDA is supposed to do in a handheld package that will sell in the \$500 range. Research shows that "the price tag has got to be under \$500, and preferably closer to \$300," to create a broad consumer market, says Robert J. Frankenberg, a Hewlett-Packard Co. vice-president.

As outlined by Apple, a PDA will be a personal organizer, scheduler, paperless fax machine, and data terminal—capable of tracking your appointments, retrieving electronic mail, airline schedules,



stock prices, or the figures stashed on your PC back at work. And all this is supposed to be as easy as using pen and paper. Instead of keyboards, many PDA designs use stylus and electronic pads. To find information, you tap on the screen. To Scribble a note, and have it faxed.

'GOOD HEADLINES.' "PDAs have been the great digital hope," says analyst Raymond Boggs of market research firm BIS Strategic Decisions. "But they can't live up to that." Indeed, the growing PDA market already is being

red with the pentop PC business, which has fallen short of initial expectations. In 1990, experts are predicting that sales of these new portable computers, which can "read" and printing, would hit \$100 million in 1992 and \$200 million in 1993. But by the year 2000. Mainly because handwriting-recognition software still is error-prone, sales this year will be only about \$100 million. The joke among Silicon Valley wags is that a PDA stands for "probably disappointed again." Recently, analysts have reset their sights, saying PDAs will move into the market next year with sales of only \$28 million, according to Strategic. That's a far cry from the \$15 million in revenues that one Apple analyst on Wall Street predicted for Newton alone. "At this point, PDAs are good headlines but little more," says Eckhard Pfeiffer, president of Compaq Computer Corp.



Even if PDAs aren't the PC industry's magic bullet, nobody's giving up on the concept. Publicly, Compaq is dismissive, but back in the labs, engineers are working on a PDA design to be ready when the market gels. Meanwhile, PDA pioneers were evident at Comdex, the industry's annual hypefest in Las Vegas, the week of Nov. 16. EO Inc., a San Valley startup that's working with Matsushita Electric Industrial and Tandy, showed off its PDAs at the booth of AT&T, another partner.

YOUR NEW POCKET PAL?

Company	Product	Price	Availability
FRANKLIN	Digital Book	\$199	November, 1992
SHARP	Wizard OZ-9600	649	Late November
EO & AT&T	EO Personal Communicators 440 & 880	1,999-3,299	1993 second quarter
APPLE & SHARP	Newton	Under 1,000	1993 first half
HEWLETT PACKARD	New 95LX handheld PC	300-500	1993 first half
TANDY, CASIO & GEOWORKS	'Personal Information Processors'	500-1,000	1993

DATA: BW, COMPANY REPORTS

In its booth, IBM showed a prototype of a possible PDA that resembles a thick cellular phone with an LCD screen. Essentially, it's a PC clone with personal organizer software as well as built-in fax and electronic mail capabilities. IBM's Clafin says Big Blue will have a number of PDA-class products next year. One signal: IBM President Jack D. Kuehler is slated to make the keynote speech at the January Consumer Electronics Show.

ALL HOOKED UP. Meanwhile, both IBM and startup EO are trying, to the extent they can, to redefine the PDA concept. Sculley outlined last January. EO machines share Newton's pen-and-electronic-pad format and include handwriting software but are described as "personal communicators," a term that IBM also prefers. The 2.2-pound 440 model packs fax, e-mail, cellular phone, and PC capabilities into a tablet-like device clearly not for consumers. List prices start at \$1,999 and run to \$3,299 for the 4-pound 880.

EO maintains that initial PDA customers will be the same ones who first used cellular phones: sales representatives, entrepreneurs, and executives on the road. That's why EO is testing its machines with NBC TV stations, Aetna Insurance, and Levi Strauss before full production begins in the second quarter of 1993. Says EO President Alain Rossmann of the likely PDA buyers: "These people place a very high value on staying in touch."

Tandy Corp.'s twist on the PDA is what it calls "personal-information processors"—a pumped-up version of today's electronic organizers. One hint of how Tandy might go is seen in the newest version of Sharp Electronics Corp.'s Wiz-

ard personal organizer. The latest version, the \$649 OZ-9600, has the scheduler, address lists, and rudimentary word processing of the earlier Wizards, but also features a touch-sensitive screen and a graphical interface for finding information. It can also capture an electronic snapshot of whatever is drawn on the screen with a stylus. Paul Allan, vice-president of the Sharp Wizard Div., says the next Wizard will read handwriting. His view is that computer makers are

trying to redefine the market that personal organizers already developed, but they're "approaching this whole thing from the dark side of the moon." Says Allan: "No one knows what they're doing, or who's going to buy it."

Like Sharp, Franklin Electronic Publishers Inc. views PDAs from its established position in consumer electronics. The maker of spell-checkers and other handheld electronic reference works sees PDAs as "mobile information tools." Its \$199 Digital Book System crams an entire dictionary into a 4.6-ounce package. Franklin says plug-in database cards could turn the book into a tool for route drivers and traveling workers.

Over at Hewlett-Packard, Sculley's portrait of a PDA has caused some confusion. Since 1991, HP has been selling a handheld PC called the 95LX, which it calls a "personal-information appliance." Now in its second generation, the 95LX includes a Lotus 1-2-3 spreadsheet, personal organizer programming, and, as an option, wireless data communications. But sales dropped off 15% to 20% in February, just after Sculley's Consumer Electronics Show speech, and didn't pick up again until June when buyers began to see that Newton was still months away. "They created all this hype," says Frankenberg. "They put up the bar... in the marketplace and then just kind of blithely discovered there's no consumer market at \$900."

Competitors continue to bristle at the power of Sculley's vision. "We're certainly not trying to alienate the industry," says Apple Vice-President Lawrence G. Tesler. He says now that Apple never expected this would be a mass product out of the chute—that the market somehow got the wrong message. Sighs Howard Elias, senior vice-president of Tandy: "In other industries, everybody knows what the market is and is singing out of the same hymnbook. In this industry, we get ahead of ourselves." And ahead of reality, too.

By Kathy Rebello in Las Vegas with Catherine Arnst in New York

THEY MAKE A KILLING MINDING OTHER PEOPLE'S BUSINESS

Small data processing outsourcingers find lucrative niches

One of the top corporate names in Dallas is Electronic Data Systems Corp. Since Ross Perot founded the company in 1962, it has grown into an \$8 billion computer-services colossus. Now owned by General Motors Corp., EDS counts among its main businesses outsourcing—managing a customer's data processing operations

year, estimates J. P. Richard, vice-president of Input, a market researcher. And it is headed for \$27.7 billion in 1997, he says. But the business is highly fragmented. EDS, the leader, commanded just 13% of the total last year, leaving plenty of room for specialty companies to carve profitable niches.

Many, such as BISYS Group, ALLTEL's



SCT'S EMMI RODE INTO DALLAS, EDS'S HOMETOWN, AND ROPED A \$35 MILLION CONTRACT

for a fixed price. So when Dallas County awarded a seven-year, \$35 million outsourcing contract, who got the business? Not hometown favorite EDS, but Systems & Computer Technology Corp. of Malvern, Pa.

Who? SCT, a \$91 million outsourcing and software company, is one of dozens of small outsourcingers that are thriving in the shadows of such giants as EDS, Computer Sciences, and IBM. Often more specialized by industry than the big players, they are grabbing highly lucrative contracts and establishing a strong second tier in computer services. EDS, known for striking megadeals worth \$100 million or more in outsourcing, tried to win over Dallas officials by showing them one of its few municipal clients, a Los Angeles hospital. But SCT's dozen previous municipal contracts won it the contract, says Chairman and CEO Michael J. Emmi.

Outsourcing, or facilities management, is a \$12.2 billion U.S. market this

Systematics Information Services unit, and Fiserv, have concentrated mainly on the banking industry. Others are focused on health care, utilities, and telecommunications. "We're not trying to be all things to all people," says John E. Steuri, Systematics chairman and CEO.

Lately, the small outsourcingers have begun to catch Wall Street's attention.

THRIVING BY SPECIALIZING

Company	Client focus	'92 revenues Millions of dollars
SYSTEMS & COMPUTER TECHNOLOGY	Higher education, local gov't, utilities	\$90.8*
BISYS GROUP	Banks	74.5**
SYSTEMATICS	Banks, telecommunications	550
FISERV	Banks	339.1

*Sept. 30 fiscal year

**June 30 fiscal year

SALOMON BROS., COMPANY REPORTS

Their appeal: defensible niche marketing, growth rates of up to 25% per annum, and seemingly safe, predictable earnings. The BISYS Group, in Little Falls, N.J., for example, has \$73 million in revenues, of which no customer generates more than 2%. And more than 90% of those revenues recur each year, says Chairman and Chief Executive Lynn J. Mangum. BISYS, the result of a 1989 leveraged buyout of a division from Automatic Data Processing Inc., sold 40% of its stock publicly at \$11 a share last March. Now it trades at \$17 1/2. "We didn't even know the term 'outsourcing' two years ago," says Mangum. "Now we are one."

What's prompting many businesses and banks in particular, to outsource is a pressing need to replace homegrown 1970s-vintage systems. Those are getting difficult to update in response to new regulations and computer technologies. "It's a dynamic environment," says James C. Mendelson, computer services analyst at Morgan Stanley & Co. "The services companies act as a buffer." Typically, they can convert customers to newer, more useful systems while slashing technology costs by as much as 50%.

BANK ON IT. SCT points to George Washington University to show outsourcing benefits. Like many institutions, the Washington (D.C.)-based school was feeling the pinch of tighter funding while administrative costs were rising by 11% a year. Operations were difficult to change because they were closely tied to an early-1980s IBM mainframe.

Last year, SCT replaced that \$4 million system with a more powerful \$500,000 Sequent Computer Systems Inc. machine. It runs SCT's Banner software at universities and will serve 1,000 desktop computers, giving teachers and administrators instant access to student information, class schedules, and the like. Counting hardware, software, and operating the computer staff by 25, the new system costs George Washington \$8 million a year to run, compared with \$10 million on the mainframe.

What's ahead for these companies? Strong growth, most likely, as virtually every industry considers outsourcing to help cut costs. As for new competitors, the main candidates are EDS, IBM, and the other biggies. Profit margins are tightening in their generic outsourcing field, where they simply run existing systems for less money than customers can. But to broaden their scope, the giants will have to invest heavily in industry-specific software—or buy established specialty outsourcingers. Either way it seems, the specialists can win.

By John W. Verity in New York



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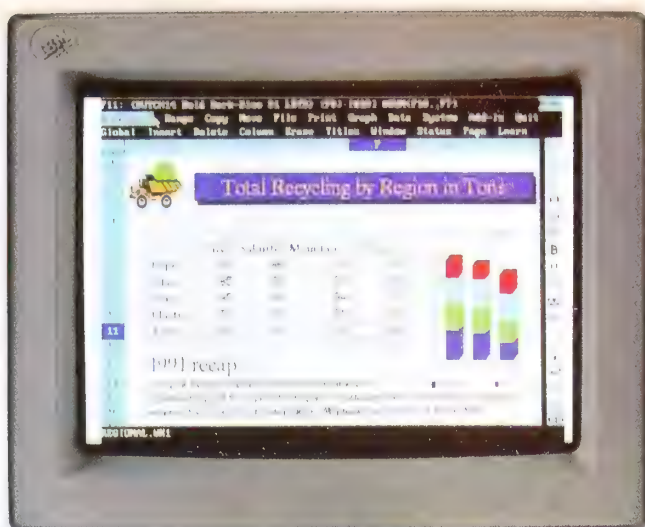
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BLURRY IMAGE: CAN THE GAP REGAIN ITS SHARP EYE FOR CASUAL AMERICAN STYLE?

A BIT OF A RUT AT THE GAP

After some misfires in fashion and pricing, it's time to regroup

M "Good style, good quality, good value." As president of The Gap Inc., Millard S. "Mickey" Drexler used that formula to sew up record earnings year after year at the casual-clothes retailer, while hard times had other retailers bleeding.

But now, even The Gap is suffering. Lingering economic malaise has changed the consumer's definition of good value to stress low price even more. That has forced price cuts on a wide array of merchandise, putting a squeeze on profit margins. In the meantime, copycats are knocking off the chain's fashions. And for the moment, The Gap seems to have lost its sharp eye for casual American style: Its fall season was a bomb. Concedes Drexler: "We made

announced that third-quarter profits were down 12.4% from last year's figure, to \$62 million. The latest estimates peg 1992 earnings between \$223 million and \$230 million on sales of \$3 billion. That would be at or below 1991's profits of \$230 million, on sales of \$2.5 billion, a far cry from January's rosy projections of 20% profit growth in 1992. Since then, the stock has skidded from a high of 59

The Gap's chill reflects how hot things have become in its market. In August, the retailer cut the price of blue jeans by \$10 a pair, to \$28. It was a back-to-school special, but other jeans makers fought back, and the low price stuck. Since then, The Gap has trimmed price tags on other products: Turtle-necks, for example,

Meanwhile, everyone from Macy's to The Limited Inc. to tiny shops such as Dollin's Family Wear in Waynesboro, Ga., has begun hawking the Gap look. "None of them is doing a particularly good job,"

says Janet J. Kloppenburg, an analyst at Robertson, Stephens & Co. "It's that everybody's doing it."

Nor has The Gap been doing a particularly good job of responding to the quirks of fashion. Normally right on top of the trend of the moment, it's slow to roll out products in colored denim, a hot new market. Also, an original fall collection might have helped. The Gap's attempts at originality flat. A copious supply of \$225 varsity jackets with leather sleeves didn't matter until there were drastic markdowns. "We bought too many," Drexler says. "It was a sloppy buy." And some stores are still trying to get rid of buyers designed to be a hip version of preppy standby. Instead, buyers found them lumpy-looking, ill-fitting, and out of style, at up to \$25.

TOO, TOO COOL. Even The Gap's much vaunted advertising is misfiring. Starting this fall, the chain has sharply curtailed its spots, which had been running at \$28 million for the whole year. On the commercials, produced in-house, featured a serious-looking coffeehouse named Max Blagg intoning lines such as "Jeans curved into the shape of your thigh. Like they were meant to do that." It was all too, too cool—to the point of self-parody. "We weren't through with our fall advertising campaign," Drexler admits, "so we're changing it."

The Gap still has a lot going for it. GapKids and Banana Republic stores are doing well. Conservative financial managers are squeezing out costs. Indeed, Gap stock rose 2½ points on Nov. 12, when the earnings drop came in milder than expected. And despite current woes, Gap merchandisers boast an enviable track record. "Don't underestimate The Gap's ability to change," says M. O'Neill of Kidder, Peabody & Co.

Like most analysts, though, O'Neill is not recommending the stock. What investors want is a clear sign that the company has successfully anticipated the next big rage. In the meantime, they're left with the lingering concern that its success has grown tired. It's up to Drexler and his lieutenants to prove once again that they are some of the best trend-spotters in business that rises and falls on trends. "The Gap is still the fair-haired baby of retailing," says retail consultant Alan G. Stein. "But their hair is thinning."

By Russell Mitchell

JEAN THERAPY. Granted, The Gap has a lot to live up to. Through 1991, it scored three years of double-digit gains in same-store sales, capping off the year with profit growth of 56%. No one thought the company could keep up the pace. Yet even with lowered expectations, October's 2½% gain in same-store sales looked anemic—especially with other retailers finally showing better results. On Nov. 12, the company an-



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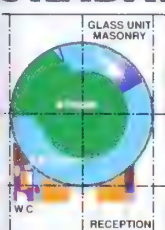
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AD SHOPS COULD USE A LITTLE ANTIFREEZE

Carmakers are putting a chill into once-cozy ties with agencies

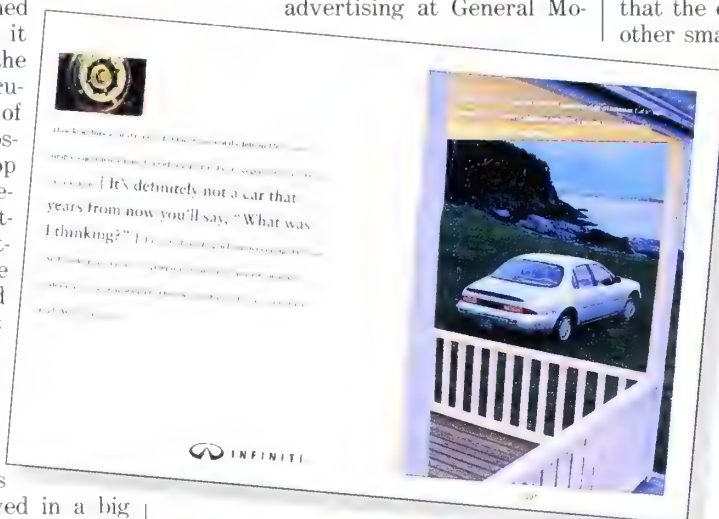
The tire-squealing you hear up and down Madison Avenue these days is the sound of car accounts pulling out of ad agencies. The murmuring just behind it is the sound of ad executives trying to control the spin.

Martin Puris of Ammirati & Puris Inc. says his agency resigned the BMW account because it could no longer work with the carmaker's marketing executives. John M. Connors Jr. of Hill, Holliday, Connors, Cosmopolis Inc. says his shop lost the Infiniti account because Nissan Motor Co. wanted to cut costs by consolidating its advertising at one U.S. agency. And Richard J. Lord of Lord, Dentsu & Partners insists his agency benefited from having the Amati account, even though Mazda Motor Corp. canceled the new luxury car before the agency filmed its first commercial: "We played in a big game," says Lord.

There's some truth in each of these claims. But none tells the whole story: The auto advertising business is undergoing an upheaval that has ad execs baffled and frightened. In the past two years, no fewer than 12 major car accounts have changed hands, have been put up for review, or canceled—including four of the industry's most celebrated brands in the last nine months (table).

'MY LAST DAY.' Several trends are conspiring to loosen Madison Avenue's grip on its once-loyal car clientele: the growing list of foreign carmakers who are failing in the U.S. market; the push to-

ward more incentives, such as cut-rate leases, at the expense of brand advertising; and rising desperation among auto companies, as retail sales continue to lag. "People are looking a lot harder at their resources," says Philip Guarascio, general manager of marketing and advertising at General Mo-



INFINITI SALES ARE UP 21% THIS YEAR, YET NISSAN SWITCHED SHOPS

tors Corp. "This isn't business as usual."

Car sales have slumped before, of course. But agencies and carmakers used to be so intertwined that the shops usually rode out the tough times. To be near their clients, many set up offices in Detroit, in the case of the Big Three, or in California, where U.S. operations of some importers are based. And several top car marketers moved easily between Madison Avenue and Motown: Guarascio, for example, spent 21 years at Benton & Bowles before joining GM.

Those cozy days are gone. GM, which

hasn't fired an agency since 1958, recently called a review of its \$140 million Oldsmobile account, now at Leo Burnett Co. And other GM agencies are feeling the chill. "I operate on the assumption that it's my last day on the account," says Sean K. Fitzpatrick, who oversees GM's Buick and GMC Truck accounts at McCann-Erickson Worldwide.

SMALL IS BEAUTIFUL. Other recent moves have done little to comfort Fitzpatrick and his counterparts at the carmaker's six big agencies. GM recently hired boutique shop Kirshenbaum Bond, which is known for its cheery New York-style ads, to handle an undisclosed corporate assignment. Guarascio insists this shouldn't threaten existing agencies. But he acknowledges that the carmaker will increasingly turn to other small shops for services he thinks they can supply better than the big ones can.

The tremors are sending some of the most durable relationships in the industry. Consider BMW, which stunned Ammirati Puris in October by putting its account into review after 18 years—even though its U.S. sales are up 21%. "You have to constantly evaluate your position in the marketplace," says BMW marketing chief Victor H. Doolan. But Puris suggests that Doolan, who recently took over U.S. marketing, simply wants to start fresh by hiring an agency more beholden to him. Doolan has no plans to shelve the agency's durable slogan: "the Ultimate Driving Machine." And he says he asked Puris to participate in the review. But Puris, who was deeply offended, refused.

In these financially straitened times, some agencies have become the victims of circumstances beyond their control. Hill Holliday's ads for Infiniti, which showed swaying pussy willows and rock gardens instead of the car, drew the brand lots of attention at its launch. True, Hill Holliday annoyed Infiniti by shuttling managers on and

MADISON AVENUE'S DEMOLITION DERBY



DATA: COMPANY REPORTS, BW

\$100 million account, say execs familiar with the agency. And dealers carped at its work wasn't aggressive enough. All, Infiniti's sales are up a respectable 21% so far this year.

The trouble is, Nissan's overall U.S. sales are down 8%. And Robert M. Paske, Infiniti's director of marketing, says Nissan can trim its marketing budget by consolidating the business at its principal American agency, Chiat Day Mojo Inc. Paske says Nissan is negotiating a more favorable compensation deal with Chiat. And Chiat initially plans to hire only 15 to 25 staffers to work on Infiniti, while Boston-based Hill Holliday took on 118 staffers and opened a branch in Marina Del Rey, Calif.

Dealing with fiscal constraints is bad enough, but some agencies must worry about clients who pull out of the U.S. market altogether. Lord Dentsu lost a \$1 million account when Peugeot withdrew in 1991. A year later, it lost an additional client when Mazda canceled a planned launch of the Amati. Now, some experts wonder if Isuzu will get out of the U.S. passenger-car business to focus on sport-utility vehicles. Or if Subaru of America Inc. will withdraw from the market—a rumor it denies.

HARDEST BLOW. For agencies, the thorniest challenge is simply to survive in a market with too many cars and not enough buyers. To boost sales, many carmakers are taking cues from packaged-goods companies by channeling more dollars into incentives, such as rebates and cut-rate leases, rather than brand advertising. "The deal is the name of the game," says Christopher B. Wackman, former marketing vice-president at Subaru. This is true for agencies in two ways: They lose revenue, and the relentless promotions undercut the brand campaigns they are hired to produce.

The price of losing a car account is steep. BMW had billings of \$67 million, for example, and Ammirati & Puris employed between 20 and 30 people on it. Puris hadn't won two other big accounts, he might have been forced to fire them off. Hill Holliday's Connors closed his California office and laid off all 118 staffers after losing Infiniti.

But that doesn't mean Connors and his are shunning car accounts. Connors has already spoken with BMW, while his is regarded as a prime contender for the Olds account. For all the heartache they inflict, car accounts are still regarded as the crown jewels of the ad business. After all, William Bernbach kicked off a creative revolution and sold plenty of Volkswagens by persuading consumers to "Think Small." That's about the only time an adman ever thought of automobiles in anything less than the kindest of terms.

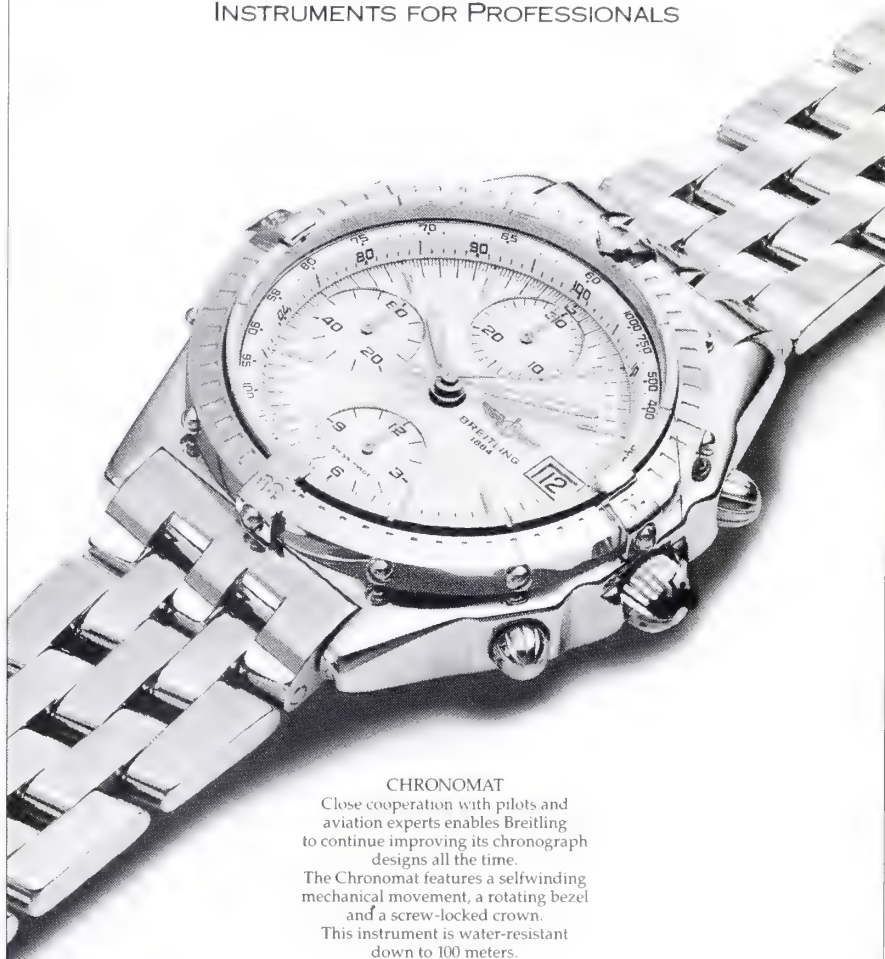
By Mark Landler in New York



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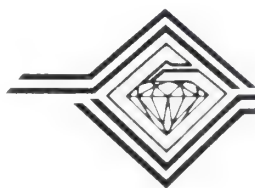
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MICROSOFT'S OTHER PIONEER JUMPS INTO MULTIMEDIA

Co-founder Paul Allen is putting his money—\$300 million worth—where his intuition is

The computer screen lights up. A company logo spins into place. You hear upbeat electronic keyboard music. Suddenly, four faces appear on the screen in living color. If you click your mouse on the bearded guy to the left, Microsoft Corp. co-founder Paul G. Allen starts to speak about the future of computing. "With the merger of TV, telephones, and personal computers," he tells you, "we're entering an exciting new era of human communications."

Allen is a click away in this interactive video promoting his software company, Asymetrix Corp. But tracking down the real Paul Allen is considerably more difficult. In the nine years since Hodgkin's disease forced him to leave the daily management of Microsoft to his illustrious co-founder, William H. Gates III, Allen has been a phantom. Not that he has disappeared entirely. After all, he does own the National Basketball Assn.'s Portland Trail Blazers, and he is catching flak from his neighbors for building a \$30 million estate on the shores of Seattle's tony Mercer Island. But for a 39-year-old whose net worth shot from zero to \$3.5 billion in little more than a decade, Allen is hardly well known. And compared with the ubiquitous Gates, he might as well be Howard Hughes.

COLLEGE DROPOUT. But that may be changing. In the past two years, Allen has quietly cashed in \$300 million of his Microsoft stock to capitalize on what he sees as the next wave in personal computing: the melding of sound, video, and data into new "multimedia" forms of information delivery. With his disease in remission and billions at his disposal, he has launched or invested in a slew of startups (table). And to help plow the new frontier, he has pledged \$100 million over 10 years to fund a new research and development lab in Palo Alto, Calif., called Interval Research Co.

Whether all the activity will pull Allen to center stage remains to be seen. But in a rare interview, the quiet, bearlike entrepreneur couldn't hide his enthusiasm for what he views as a "sea change" in the computer industry. "I've really upped my intensity in the last year, because I see this momentum

starting to build," he says. "What I really find exciting is creating new products or ideas and the opportunity to tie technology together."

If history is any guide, Allen certainly bears listening to. The last time he had such an inkling about the industry, it planted the seed for Microsoft, now the world's largest software company. In 1974, Allen spotted a copy of *Popular Electronics* featuring an article on the "world's first microcomputer kit"—a box designed to run Intel Corp.'s revolutionary 8080 microprocessor. As Gates tells it, Allen suddenly saw a future filled with personal computers, and the two set out to write software for them. "Paul saw the microprocessor as a breakthrough miracle and showed it to me," says Gates. "He's a thinker."

Allen and Gates met at the Lakeside School, a prestigious private high school in Seattle. Although Allen is two years older than his friend, the two spent long hours working on computers and trying to find ways to sell their services. After graduation, Allen attended Washington State University to study computer science, but halfway through his sophomore year, he dropped out to take a job at TRW Inc. in Vancouver, Wash.

By 1974, Gates had enrolled at Harvard University and found a job for his pal at Honeywell Inc. in Boston. About six months later, Allen saw the *Popular Electronics* article, and for eight weeks the two friends worked day and night at the Harvard computer center to write a version of the BASIC computer language that would fit the new machine.

Before long, Gates left Harvard, and the two set up Microsoft to license the new program. By 1980, IBM had hired Microsoft to provide the operating system for its new PC. The result was DOS, which became the industry standard and fueled Microsoft's growth to \$2.7 billion in revenues last year.

PAUL ALLEN'S BUDDING EMPIRE

ASYMETRIX CORP. Bellevue, Wash.
Founded 1985. Develops software that lets programmers develop their own. Estimated sales: \$20 million

INTERVAL RESEARCH CORP. Palo Alto, Calif.
Founded 1992. Allen promises to pump \$100 million into this think tank over 10 years to fund term research into multimedia applications

STARWAVE CORP. Bellevue, Wash.
Founded 1992. Anticipating that most homes eventually will be equipped to receive data information over cable or satellite, it is developing products for what could be a huge market

PORTLAND TRAIL BLAZERS Portland, Ore.
Allen bought Oregon's NBA franchise for \$10 million in 1988

SKYPIX CORP. New York
In 1991, Allen invested \$10 million for a stake in this direct broadcast, pay-per-view company. It filed for Chapter 11 in September. Allen may pump in \$150 million more

SUREFIND CLASSIFIEDS BY TELEPHONE Seattle
Car and real estate classifieds over the phone. Allen bought a 25% stake in August

DATA BW

Allen, who still sits on the board of Microsoft, holds a 12% stake worth \$3.3 billion. He was diagnosed in 1982 with Hodgkin's disease—a form of cancer that attacks the lymph nodes—and underwent extensive radiation and chemotherapy. He battled the disease into remission and eventually decided he wanted out. In some respects, Allen wasn't exactly

...ative material, anyway. "He doesn't
...ish managing huge groups of people,"
...ys Gates. "He's capable of it, but he
...esn't relish it."

For Allen, the attraction has always
...en making things happen with tech-
...ogy, not business. And his abiding
...erests in sports and music kept him
...upied as he sought new opportunities
...computers. In fact, Allen says that if
...hadn't stumbled upon Microsoft, he
...ght have tried to be a professional
...tarist. He plays electric guitar in a
...k band with friends and is an avid
...of Jimi Hendrix, another Puget
...nd native. A big collector of Hendrix
...morabilia, Allen plans to build a Jimi
...ndrix museum in Seattle. Not surpris-
...ly, it will feature interactive comput-
...technology designed to bring Hendrix
...l his performances to life.

The Trail Blazers, too, are an enjoy-
...e obsession. Allen flies his private
...Challenger jet from Seattle to
...Portland for

deeply about where technology was
...moving. He concluded that high-speed
...communications channels are revolution-
...izing the delivery of information to
...homes and businesses. Fiber optics, ca-
...ble TV, direct-broadcast satellite, and lo-
...cal-area networks are helping create a
..."wired world," says Allen, where most
...people will have access to rivers of dig-
...ital information. TV, audio, and computer
...technology will merge, creating huge op-
...portunities for those who can figure out
...how to feed information through the
...new pathways. "At some point," he
...says, "everybody in the industrialized
...world will have access to computers, and
...they'll all be wired together."

So far, Allen's strategy is multifacet-
...ed. Three companies are exploring soft-
...ware-related opportunities in the near,
...medium, and long term, and he has in-
...vested in other companies that provide
...entertainment, stock quotes, and clas-
...sified ads by satellite or phone. "All this
...activity has to do with communications

help developers write programs for Mi-
...crosoft Windows that integrate video
...and sound. A big hit, it accounts for
...more than half of the privately held com-
...pany's estimated \$20 million in 1992 re-
...venues. This year, Asymetrix launched
...two new products—MediaBlitz! and Mul-
...timedia Make Your Point. Allen hopes to
...launch a half-dozen more next year.

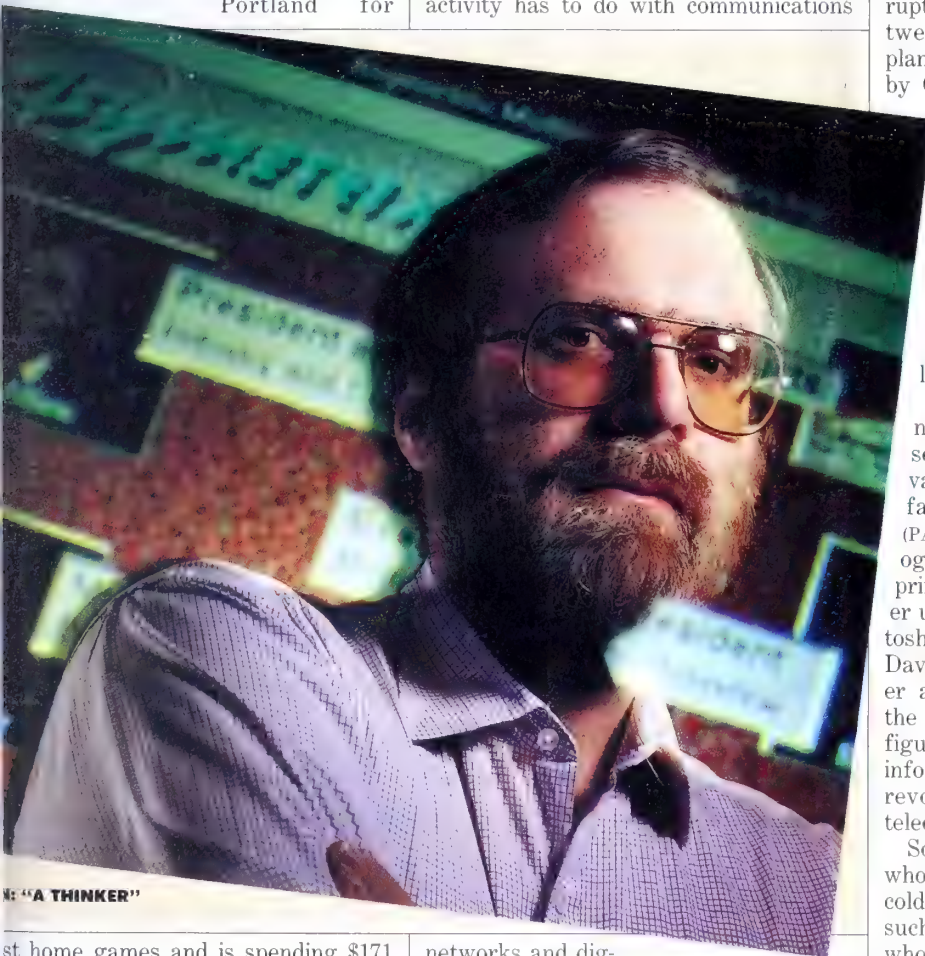
Another big Allen project is SkyPix
...Corp., which was formed by others to
...provide up to 80 pay-per-view TV chan-
...nels by direct-broadcast satellite. Allen
...invested \$10 million in 1991 to get at
...technology that compresses video and
...data so more of it can be delivered by
...satellite. SkyPix, however, hit a wall
...when it became known that its chair-
...man, Frederick Greenberg, was being in-
...vestigated by a federal grand jury for
...past business practices. That spooked in-
...vestors, and by this past September,
...SkyPix had landed in Chapter 11.

SATELLITE DELIVERY. In January, a bank-
...ruptcy judge in Seattle will decide be-
...tween two competing reorganization
...plans: one submitted by Allen, the other
...by Greenberg. Allen's plan proposes to
...pump \$150 million into the compa-
...ny to commercialize its satellite
...technology. Possessing such a de-
...livery system is key to Allen's
...strategy. In May, he set up a separ-
...ate company, called Starwave
...Corp., to develop information prod-
...ucts to be fed into homes and of-
...fices via satellite and cable. Run by
...Steve Wood, Starwave hopes to
...launch a product by 1995.

Starwave could commercialize tech-
...nologies developed at Interval Re-
...search, Allen's new think tank. Inter-
...val is modeled after Xerox Corp.'s
...famed Palo Alto Research Center
...(PARC), which pioneered such technol-
...ogies as the computer mouse, laser
...printers, and the graphical interface lat-
...er used in Apple Computer Inc.'s Macin-
...tosh. To run the new lab, Allen hired
...David E. Liddle, a former PARC research-
...er and IBM exec. Focused squarely on
...the long term, Interval's charter is to
...figure out ways to manage the flood of
...information that will be unleashed by
...revolutionary new amalgamations of
...telecommunications, TV, and computers.

Some friends still worry about Allen,
...who continues to suffer from frequent
...colds. Can he play top executive over
...such a diverse set of interests? Liddle,
...who considers Allen a true visionary,
...isn't concerned: "He's remarkable. He's
...not a guy who was in the right place at
...the right time and got bloody rich. He's
...just really smart." To put it another
...way, when Paul Allen says multimedia
...is the wave of the future, you can bet
...he's more than just a talking head.

*By Dori Jones Yang in Bellevue, Wash.,
...with Kathy Rebello in San Francisco*



...: "A THINKER"

...st home games and is spending \$171
...lion on a new stadium for the team.
...t for all the energy he puts into his
...technical interests, Allen is a soft-
...re guy at heart. He never strayed far
...m computers or from thinking about
...future of technology.

...ast year, Allen took off several
...nths to travel and recharge his bat-
...ties. He read voraciously and thought

...networks and dig-
...ital information delivery," explains Steve
...Wood, a colleague since the early Micro-
...soft days. "Paul is always looking for
...the next great leap."

Asymetrix, Allen's most mature start-
...up, was actually launched in 1985. But
...its first successful product didn't appear
...until last year. Multimedia ToolBook
...provides software building blocks that

An Industry Re



Ted Waitt (left), founder and president of Gateway 2000, believes in running his high-tech business the old-fashioned way, with the western friendliness you find in places like this cafe in Spink, South Dakota - population 14 - located just a few miles from Gateway's

There's a revolution going on in the personal computer industry. Established ways of doing business don't work anymore, forcing many PC companies to make drastic changes. What caused this upheaval - and what does it mean to you?

The revolution began seven years ago in the Midwest when 22-year-old Ted Waitt started a direct market computer company called Gateway 2000. Gateway is the maverick PC manufacturer located in South Dakota that has grown, almost unnoticed, to exceed \$1 billion in annual revenue. The latest International Data Corp. research shows Gateway 2000 with a 3.6% share of the U.S. PC market,

compared to Compaq with 3.5% and Dell with 2.1%.

How did a little midwestern company manage to do this? We run our high-tech business the old-fashioned way. We keep our overhead low (it's the lowest in the business). We put our energy and money into our products and people. We treat our customers like friends. And we never get greedy. We have the lowest prices in the industry - and we lower prices every time we can.

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What you see other computer makers doing today – struggling in vain to get their overhead down, cutting corners on quality, features and performance to get their prices down – is a direct result of the midwestern phenomenon called Gateway 2000.

And now you know where to get the best buy on quality, high-performance PCs (or other computer products: we sell desktops, notebooks, a great little HandBook, printers, software, multimedia components, peripherals and much more). Whether you're a Fortune 500 company, small business or individual, give us a call! We'll give you the kind of value you thought was a thing of the past.

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WHITE COLLARS ARE COMING BACK IN STYLE

Good news for the economy: Professional firms are hiring

Dragged down by cuts in defense spending and corporate belt-tightening, the U.S. job market still seems mired in mud. Even though the economy is expanding, the number of white-collar jobs has remained almost flat since the beginning of 1992. And the latest report from the Bureau of Labor Statistics (BLS) shows that manufacturing jobs are continuing to disappear at a distressing rate.

But there's good news from one part of the employment front. Largely unnoticed, a group of high-paying, white-collar industries, which were battered early by the recession, has started hiring in recent months. Such business services as advertising, management consulting, securities and commodities brokering, and, to a lesser extent, legal services and accounting are all expanding again, after an unprecedented loss of jobs over the past few years.

These service industries—dominated by small and medium-size companies—are adding workers, even while other parts of the economy continue to chop them. Banking is still shedding jobs at a rapid rate, with no end in sight. Defense cuts are taking their toll on engineering and technical personnel. And big outfits such as General Motors Corp. and IBM are promising to take more chunks out of their white-collar work force.

VROOM. The revival of job growth in business services—which propelled the boom of the 1980s—will play a key role in boosting the overall economy. The biggest winners will be such cities as New York and Chicago, where such jobs are concentrated.

The employment gains in business service don't show up in the well-publicized monthly BLS report. But a **BUSINESS WEEK** analysis of government job data on specific industries reveals just how strong the upturn has been. Over the past six months, the securities industry has been expanding at a 7.4% annual rate (chart)—almost as fast as it did during the go-go '80s. Firms providing management consulting and other

services, excluding self-employed consultants, have been adding jobs at a 6.5% rate. Even advertising, which was hard hit by falling sales last year, has regained two-thirds of the jobs it lost from 1989 to 1991.

While the rest of the private sector has not grown at all, these industries in total have gained about 60,000 jobs over the past year. And in purchasing power, this increase is equivalent to a rise of 120,000 jobs, because the jobs in these industries are among the best-paid in the U.S., with wages and salaries about

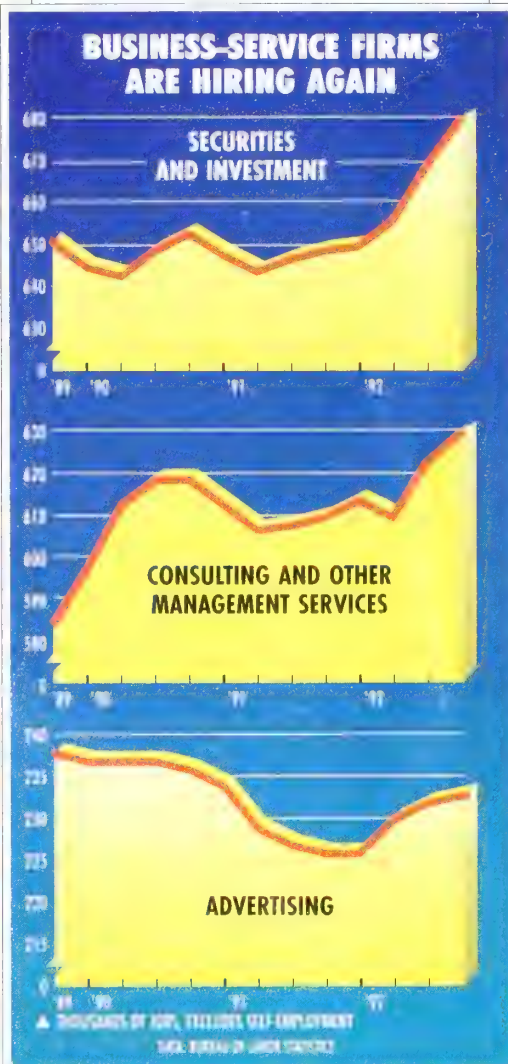
double the national average. Indeed, when taken together, these industries now count for a bigger share of wages and salaries than the automobile, chemical and steel industries combined. For that reason, increased hiring by business services gives a disproportionately large boost to the national economy.

Job-hunting in business services, which still rough, has become much easier. *Business Week's* help-wanted index for advertising, marketing, and media jobs is up about 25% over last year. By contrast, the Conference Board's index of help-wanted listings across the entire economy is flat. Right Associates, a Philadelphia outplacement firm, reports that business services are hiring far more people than they are cutting. And executive headhunters are also reporting pickup. Says Joan Zimmerman, executive vice-president at G. Z. Stephens, a recruiter for the securities industry: "We're seeing hiring across the board."

Many law and accounting firms, which either cut jobs or hired very cautiously during the recession, are stepping up recruitment of new graduates. For example, Skadden, Arps, Slater, Meagher & Flom, the big New York law firm, is hiring 25% more summer associates than it did a year ago, says executive partner Peter P. Mullen. "We saw a turning point in July," says Jane Thieberger, assistant dean for placement at New York University's School of Law. "An increasing number of law firms are starting to do hiring." At accounting giant Pricewaterhouse, entry-level hiring is up about 10% this year. Says Larry Scott, national recruiting director: "This is real."

In part, these hiring gains are a natural rebound from a disastrous recession. In 1981-82, employment in business services kept growing right through the downturn in the rest of the economy. They seemed immune to the business cycle. But this time they were among the first hit by the slump, helping set the tone of the "white-collar recession." The number of advertising and accounting jobs, for example, peaked in the fall of 1989, well before the recession's official start in July, 1990.

'SO THIN.' Many firms tightened their belts so hard they pinched, especially once business began to pick up early in 1992. Fearing the worst, law and accounting firms had cut back hiring more than the actual fall in business warranted. "We dropped down to what lower [in employment] than we wanted to be," admits Mullen of Skadden Arps. And advertising



which went through a wave of restructuring and cost-cutting, is even leaner. Howard R. Koller Jr., president of the Howard-Sloan Koller Group, a recruiter advertising, says ad agencies "are so on they can't get any more out of their people."

These industries will keep adding jobs as the economy expands, since the demand for legal, advertising, and accounting services rises with the gross domestic product. Securities firms, which report near-record earnings this year, will continue to hire. And consultants and other outside professional firms will benefit from the white-collar cutbacks across the rest of the economy, since many companies have chopped staffs so

much that they have to farm out work formerly done in-house.

The rebound in business services will be a much needed tonic for the country's biggest cities, which have suffered badly from the recession. New York, Chicago, and Los Angeles together have 10% of all jobs in the country. But they have about half of all jobs in the securities industry, about one-third of all advertising jobs, and about 20% of all law and accounting jobs.

New York City's economy, in particular, rises and falls with these industries, which make up about 20% of the income generated in the city. BUSINESS WEEK's analysis of BLS data shows that starting this summer, the number of securi-

ties-industry jobs in New York City began to rise for the first time since the 1987 crash. New York City law firms, too, are starting to add to their payrolls.

Along with high-tech, business services are at the core of the modern U.S. economy. They are among the few sectors in which America has a clear global competitive advantage. When they prospered in the 1980s, the country grew, and when they struggled, so did everyone else. That's why recovery from the recession has proved extraordinarily difficult. The hiring rebound in business services may signal that the end to the long slump is finally in sight.

By Michael J. Mandel in New York

THE SELF-EMPLOYED START TRADING IN THEIR SHINGLES

When Gary L. Daugherty lost his job in 1989, he decided to go it alone in the same way as many other professionals: He became a consultant. Daugherty, 45, had spent most of his career at Nashville-based Aladdin Industries Inc., rising to vice-president for human relations. He soon landed several assignments, including a major one to recruit for a small company in the Northeast. By hustling, Daugherty was able to maintain the pay he had enjoyed at Aladdin. But in July, when a job as vice-president for human resources came up at Gibson Greetings Inc., he grabbed it. Says Daugherty: "The hardest part about being self-employed is finding new work."

Daugherty is not alone. With many white-collar industries hiring again, some self-employed are going back to work for companies, bringing to an end the extraordinary surge in self-employment that began in the 1980s. That, in turn, may force a revision of some popular notions about white-collar workers. Since the recession began, many observers have argued that with big corporations restructuring and thinning the ranks of managers and professionals, the only way for many professionals to survive in the '90s would be to hang out a shingle and go into business for themselves.

NEW WAVE. Today, this theory seems to have parted company with reality. After rising steadily through the 1980s and then shooting up early in the downturn, self-employment among professionals in the past year has dipped. While very large corporations have cut their ranks of professionals and are



DAUGHERTY JUMPED AT AN OFFER FROM GIBSON GREETINGS

still shedding workers, small and mid-size ones, especially in business services, have been creating white-collar jobs. That's enough to give some of the world's Daughertys a chance to get back into the corporate fold. "If self-employment by managers and professionals was the wave of the future, it's not happening now," notes Andrew M. Sum, a labor economist at Northeastern University.

It's easy to see why analysts believed that the self-employment boom of the 1980s would be fueled by the recession. The economy shed 1.3 million jobs from the third quarter of 1990 to the first quarter of 1991, according to the Bureau of Labor Statistics. And large companies—even many of those in the manufacturing sector—cut white-collar jobs mercilessly. That sent plenty of managers going into business for themselves. It all fit

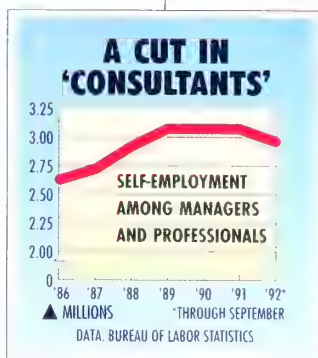
neatly into a longer-term trend toward white-collar self-employment, which grew by 30% from 1982 to 1991, vs. an overall employment gain of just 18% over that period.

RECLASSIFIED. Yet since then, the trend has gone into reverse. From the second quarter of 1991 to the third quarter of this year, white-collar self-employment fell by more than 6%, to 2.9 million (chart).

Where did all those consultants go? BLS surveys don't track the self-employed closely enough to know for sure, so some could have retired or withdrawn from the labor market. And some may simply be reclassifying themselves as employees after the Internal Revenue Service in 1987 began a crackdown on companies that carried contract employees on their books as self-employed. But some are getting jobs again. Headhunters say they're now placing more self-employed professionals in corporate jobs. Says Dan Parker, a vice-president at A.T. Kearney Inc. in Atlanta: "Many of these people are going back to smaller companies, which is where the hiring is."

The sluggish economy still is causing plenty of turmoil for white-collar workers. But hiring by many corporations is increasing, not shrinking. And if there's a company job to be had, many of the self-employed are only too happy to jump at it.

By Aaron Bernstein in New York



A SALUTE TO THE MEMBERS OF THE DISABILITY 2000 - CEO COUNCIL

The Disability 2000 - CEO Council, formed by the National Organization on Disability, now includes over 300 Chief Executive Officers and corporate members. These CEOs are proudly committed to the goal of expanded employment of people with disabilities by the year 2000. N.O.D. extends its sincerest appreciation to council members whose support has made another successful year possible.

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RETIREES, YOUR HEALTH PLANS LOOK A BIT PEAKED

Along with a gold watch, many companies traditionally bid adieu to retiring employees with a promise to pay their health insurance costs, at least until age 65 when medicare kicks in. But these days, more and more retirees are experiencing the realities of the workplace. And a new accounting rule, effective in January, may cause you to dig deeper into your pocket to provide sound medical coverage for yourself and family. By recognizing the inevitable early, though, you have an opportunity to plan ways to juggle your medical budget to assure solid protection.

The new rule requires companies to show the liability for retirees' health benefits on their regular financial statements. The drag on earnings, which could weaken share prices, should put greater pressure on employers to trim medical costs. An easy way is to require retirees to pay a heftier hunk of the insurance premium—or even all of it. And if you don't think that's a fair way for your company to reward loyal long-time workers, consider this: Some companies have eliminated health benefits for retirees altogether, and others, including Unisys and McDonnell Douglas, have cuts on their drawing boards.

READ THE RULES. Before you get word that your ex-employer is pulling the rug out from under you, a first step is to become familiar with your plan's COBRA provisions. The term stands for the government's Consolidated Omnibus Budget Reconciliation Act of 1986, but it might well be called Continuation of Benefits for Retiring Actives. Its rules govern how long an em-

ployee who retires (or whose job is terminated) can continue coverage under the company's group health plan.

The period may be specific—18 months, typically—or however long it takes until you are eligible for medicare. Varying by company, there are different arrangements on how much of the health premium gets paid by the employer, how much by you.

Once you are armed with the data, you're prepared to decide whether you need to buy additional health coverage for yourself and your family. The size of your company can affect the decision. If you work where there are 20 or more employees, and keep working past 65, your employer must let you stay in the regular health plan. Then medicare supplements the company benefits.

KEEP WORKING. If you are still at work, but are close to retirement age and feel fairly certain you'll face sizable medical bills once you say goodbye, you might want to consider delaying the retirement date. If the company plan calls for active employees to pay only a small portion of the health premium, while retirees must pay the full amount and perhaps get fewer benefits besides, it could make economic sense to stay on the job a while longer.

Don't bank on medicare to relieve all of your health worries once you hit 65. Its

coverage often leaves much to be desired. For instance, a longtime stay in a hospital can be financially disastrous: You pay \$163 daily after the first 60 days, \$326 daily after 150 days, and all costs beyond that. And medicare pays nothing after the first 100 days when a patient is in a skilled-

care nursing home. There's no benefit, either, for custodial care—the kind needed by many nursing home residents—or prescription drugs once you are out of the hospital. So if your employer's own group plan is costly or includes retirement workers, you will need to investigate the cost of medicare supplement policies, sometimes called medigap or medigap coverage. There are 10 different health plans. Each offers a basic package of benefits, but individual policies include coverage for such things as skilled-nursing outpatient drugs, and preventive medical care. A booklet, *Consumer's Guide to Medicare Supplement Insurance*, has helpful information. It's available from the Health Insurance Association of America, 41455, Washington, D.C. 20018.

Ron Berman, a partner in the tax department of G. Thornton's office in Madison, Wis., says some companies have reduced their costs by setting up separate insurance pools for retired employees. Older than the general workforce, retirees have more health claims and consequently are usually insured at higher rates. Rather than throw them off completely, the companies agree to subsidized health premiums for a specific length of time—5 or 10 years, say. After that, retires pay the full premium.

In such instances, it's a good idea to check when



can join with others in a group that can ask an insurer to provide coverage at lower-than-individual rates. Church, fraternal organizations, professional associations can make such deals. "You pay 100% of the premium, but less than you'd pay by yourself," Berman says.

WARNING SIGNALS. Another sign some companies are using to lower their own costs is helping loyal workers' retirees stay insured: a voluntary employee benefits association, similar to a 401(k) plan that lets you sock away pre-tax dollars in an investment account, with the money specially earmarked for health care or medical insurance premiums. Because VEBAs have strict limits on the amount of assets that can be set aside, they're not widely available. But more companies, particularly ones where employees are unionized, are considering setting them up. If there is an upside to the accounting rule, it's that

RETIREE MEDICAL PLANS GO UNDER THE KNIFE

Employer action*	Percent that did it since 1990	Percent that plan it by 1994
RAISED PREMIUMS	30%	17%
INCREASED COST-SHARING BY RAISING DEDUCTIBLE OR OUT-OF-POCKET MAXIMUM	26	14
TIGHTENED ELIGIBILITY	11	10
INCREASED BENEFITS	12	5
TERMINATED PLAN	3	4

*Based on survey of 1,380 companies

DATA: A. FOSTER HIGGINS & CO.

it forces companies to get the numbers out into the open, so analysts and workers will have a chance to spot early-warning signals of an employer's inability to fund health-care liabilities. "Previously, employers promised benefits to retirees without calculating what they might cost," says Melissa Krause, an audit partner at Deloitte & Touche. "Everything was pay-as-you-go. So you could work 25 years and then discover your

company didn't have enough money to keep its promises."

In the mid-1980s, that happened at such companies as Colt Industries, Bethlehem Steel, and Bessemer Cement. Now, with the average retired worker's annual health costs running about \$2,500 vs. \$2,275 in 1990, more companies are planning to take steps to trim expenses in the near future. The propensity to minimize costs or slash benefits shows up clearly in

a Foster Higgins survey of 1,380 employers (table).

Despite President-elect Clinton's optimism that government action can bring about improved health care for everyone, Grant Thornton's Berman says the individual shouldn't depend on Washington. And you certainly shouldn't rely on any verbal pledges that are made by your employer.

"Right now, you need to understand exactly what your company has promised you—in writing," says Berman. "And no matter how good it sounds, double-check whether there's a line that says the company has the right to amend or terminate the plan." If the words are there, the courts have upheld the companies' rights to make any changes they want—even if the result is that you're left with expensive medical costs, or no insurance at all. It's a case, perhaps, where reading the fine print can make you feel in desperate need of a doctor. *Don Dunn*

When he moved to Florida in 1989, retired salesman Fox thought he could escape the long arm of the California tax man. But that arm is longer than he imagined. It turns out California is one of about 12 states that tax the retirement income of former residents. So even though he now lives in a state with no income tax, Fox still has to pay the old state a "source tax" on pension money. Such levies have long been on the books but have only recently been widely enforced. "States are hungry for tax money," says pension specialist Milton Pickman. "They're broke." Each state has its own rules on what it taxes and how seriously it enforces the law. California, the most aggressive, hires collection agencies and imposes up to a 55% penalty and interest on delinquent

'SOURCE TAXES': YOU CAN RUN, BUT YOU CAN'T HIDE

seniors who have moved away. New Jersey, meanwhile, repealed its nonresident tax on pensions in 1989. If you want the lowdown on

your state, a good resource is Retirees to Eliminate State Income Source Tax (RESIST) of America, in Carson City, Nev. (702 887-1296). Or call your state's department of taxation.

LOOK FIRST. While retirees gripe about the unfairness of taxation without representation, courts have so far upheld source taxes. Even so, there are some steps you can take to minimize payouts.

Before tapping money from pension plans, know the law of the state where you earned it. Paying attention to details may mean thousands of dollars in savings. New York, for one, would tax you on lump-sum withdrawals

from an individual retirement account. But if you took the money as an annuity—collecting a set amount every year—the state would exempt the entire tax.

Pick your new state with care. Florida and Nevada, which don't impose state income taxes, can't protect retirees from taxes owed to other states. They do, however, bar other states from grabbing retirees' property to satisfy tax debts.

Also, keep meticulous records, "so you don't have to duplicate them later," says Anthony Curatola, accounting and taxation professor at Drexel University. This is important if you qualify for a credit in your home state for taxes paid in another.

Finally, you can lobby to change the law. RESIST and other groups have been urging Congress to bar the source tax—or at least to require that states give taxpayers advance notice. Hearings could take place next term. *Michele Galen*



Health

PC RADIATION: HOW TO CUT YOUR RISK

Are personal computers hazardous to your health? Scientists have yet to provide a definitive answer. They know that video display terminals give off low-frequency electromagnetic fields, which have been linked to brain tumors, childhood leukemia, cancer, and miscarriages. New Swedish and Finnish studies are fanning fears by adding to this evidence.

Such findings have made many users uneasy, and the industry has responded with some safeguards. IBM, Apple, and Compaq, among others, now sell low-emission monitors that add, at most, \$100 to the price of a display. These monitors meet Sweden's MPR II guidelines, which have be-

come a de facto standard. MPR II restricts the amount of VDT radiation for two frequencies of electric current and two of magnetic. If the packaging doesn't tell you whether a computer complies with MPR II, ask the dealer or manufacturer.

MPR II compliance does not guarantee safety, since it's still unclear what level of radiation—if any—is dangerous. Robert Dieterich, managing editor of *VDT News*, and other experts on electromagnetic fields say emissions could be reduced further—or even eliminated—but for now, MPR II is the best bet.

STRIP SPONGE. If you don't want to buy a new monitor, many companies offer fairly simple, inexpensive products to reduce emissions in old displays. Safe Technologies (800 638-9121) markets metal strips

that are placed inside the monitor at the back to absorb magnetic radiation at the spot where it's generated. Ship your monitor to Safe Technologies, and they'll install the strips—\$100 for monochrome and \$195 for color monitors. NoRad (800 262-3260) sells metal bands for \$98 that fit around the outside of the monitor. To block electric fields, attach grounded mesh

or glass screens to the front of your monitor. They range in price from \$30 to more than \$100. *VDT News* (P.O. Box 1799, Great Central Station, New York, NY 10163) has a list of companies that manufacture low-emission monitors and other radiation-reducing products.

If you're shopping for a PC and don't require highly sophisticated graphics, consider a laptop model with a liquid-crystal display screen. LCD screens give off negligible traces of radiation compared with cathode-ray-tube monitors.

The easiest precaution is to "sit an arm's length from the front of your screen" about twice that distance from the back or sides of someone else's terminal, says Galen Gruman, an editor at *MacWorld*. The farther, the better. *Pam B.*



Stock markets of less developed countries are one of the hottest investment areas going. So investors are understandably fascinated by the potential in Southeast Asia, where the economies of some countries are poised to grow 6% to 10% during the decade, vs. 2% in the U.S.

For the small investor, one of the best ways to get a stake in these markets is through the two Southeast Asian open-end mutual funds. "It's not imprudent for someone to consider this as part of a diversified portfolio," says Craig Litman, co-editor of San Francisco-based *L/G No-Load Fund Analyst*.

If you wanted to play the enormous growth in China, for example, it would be difficult to invest directly in fledgling Chinese companies. But you could buy into the Newport Tiger Fund, which has large holdings

BUYING A STAKE IN SOUTHEAST ASIA'S BOOM

in Hong Kong companies that are profiting from the cheap labor and land now available in southern China. The fund, which has 48% of its \$100 million in assets in Hong Kong, 6% in cash, and the rest spread among emerging countries, such as Malaysia

and Singapore, has risen 30.63% through Nov. 12. Litman gives high marks to its San Francisco-based manager, Jack Mussey, whose philosophy is to concentrate on stocks of established growth companies, such as Hongkong Shanghai Bank.

SOUTHEAST ASIA VIA OPEN-END FUNDS

	Total return		
	1990	1991	1992*
NEWPORT TIGER FUND	-15.1%	26.0%	30.63%
T. ROWE PRICE NEW ASIA	NA	19.3	16.18
BARING ASIA PACIFIC INDEX	-10.9	19.6	17.33

* Through Nov. 12

NA=not applicable

SOURCE: L/G NO-LOAD FUND ANALYST

Smart Money

gests T. Rowe Price New Asia Fund, launched in September, 1990. With \$297 million in assets, it is run by a team that manages T. Rowe Price International Stock Fund. Up 16% through Nov. 12, New Asia Fund holds 37% of its assets in Hong Kong, 17% in Australia, 17% in New Zealand, 6% in Canada and the rest in Singapore, Thailand, and other Asian countries.

Betting on developing Asian countries individually can be risky, as investors learned when the Hong Kong stock market took a 22% tumble after the bloody 1989 uprising in Beijing's Tiananmen Square. But the Southeast Asia funds are diversified, so they can better withstand the shocks that rock any one country. Since capitalism seems to be flourishing in that part of the world, the funds are one way small investors can get a piece of the action. *Leah S.*

TEAMWORK. Expenses of the Newport Tiger Fund are expected to be under 1.8% in 1992, and it carries a load. When purchased directly from World Funds (800 527-9500) in Richmond, Va., you pay 5%. But you can lower that a bit if you buy through one of the many financial advisers who sell it.

If you want to avoid any load, Litman sug-

They're Back...

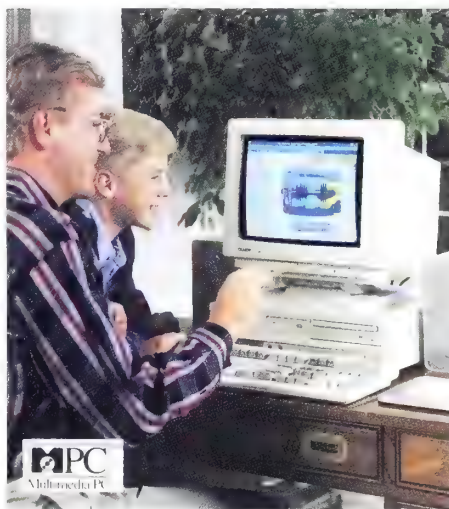


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PHILIPS' DCC 900, WHICH GOES FOR \$799, ACCEPTS DIGITAL AND ANALOG TAPE

Electronics

SLIDE OVER CDs, CASSETTES ARE BACK—DIGITAL, THAT IS

If you're one of those technology resisters who finally broke down and bought a compact-disk player, brace yourself. A new set of audio initials is hitting the stores this month that will present music lovers with yet another tough decision.

DCC, for digital compact cassette, is a digital tape technology that allows you to buy terrific-sounding prerecorded cassettes and make CD-quality recordings onto blank cassettes. Best of all, the DCC decks can still play your huge library of old-fashioned analog cassettes.

READY FOR CHRISTMAS. DCC was invented by Philips Consumer Electronics, the same company that, jointly with Sony, brought CDs to the world 10 years ago. Philips is charging \$799 for its first DCC deck. A Tandy player that uses technology licensed from

Philips costs \$700. Technics and Marantz will have slightly more expensive versions by Christmas.

As with CDs, the music on a DCC is recorded digitally, giving the cassettes the same crystal-clear sound quality. But unlike CD players, DCC decks can be jostled or bumped without ever missing a beat, making them ideal for cars and portable systems. They can also record. The tapes wear out slightly faster than CDs but are far longer-lasting than conventional cassettes, giving thousands of playings with no quality change.

And for once, the gods of consumer electronics did not kill off the old format for the new. DCC tapes are exactly the same size and configuration as analog tapes, so either type of cassette works in a DCC player. The analog cas-

settes don't sound any better or worse on the DCC deck, and DCC tapes still can't be played on an ordinary cassette deck. But since cassettes are the most popular format for prerecorded music, that represents a big advantage over Sony's digital audio tape format. Introduced a year ago, it has been relegated to professional recording studios after a long controversy over copying capabilities.

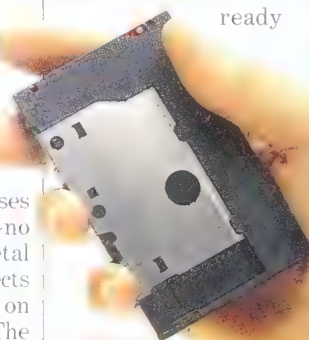
Besides compatibility, Philips made other improvements to DCC. The new cassettes have cases with no moving parts—no more broken covers. A metal shield on the cassette protects the tape from catching on anything and unraveling. The shield pushes out of the way automatically when the tape is inserted in the player. And the album graphics are printed directly on the face of the cassette, so you don't have to squint at tiny writing to find the tape you want.

Other nice features: The player has a window that displays the name of the record and the song you're playing.

Like a CD, you can cue up a cut on the cassette. And 45 to 90 minutes of music on one side.

ONE-SHOT RECORDING. There are drawbacks—the most obvious is cost. But the price is sure to come down, and it's already considerably less than the \$1,300 cost of the first digital players. For consumers who want more choice, Philips says it will come out with portable, car, and dual-deck players in the next 12 months. Music tapes will run around \$13, blank tapes about \$8 to \$10. Be aware that under an agreement reached with the recording industry to thwart piracy, you can make a digital recording on a blank tape only once. If you try to make a recording after the recording, or re-record the tape, the next version will have analog, not digital, sound quality.

Philips is counting on DCC to make it a household name in the U.S. consumer-electronics market. To that end, it's making sure consumers can buy plenty of prerecorded cassettes. Some 100 titles are ready available.



A METAL SHIELD PROTECTS THE DIGITAL TAPE

able, and 500 more will be in the stores by the end of the year—everything from new Bon Jovi album to ciano Pavarotti. So bone on those initials. Before you know it, DCC could well be the next audio item you can't live without. *Catherine A.*

Worth Noting

■ **COUNTDOWN.** If you want to take a capital loss at the end of the year on stock whose price has dropped in

1992, but you still want to own shares of that stock, you must make your new purchases, or "double up," by Nov. 30. As long as you buy at least 30 days before you sell, your loss is tax deductible.

■ **CAP IN HAND.** If you covet a cap from a baseball team of yore, Cooperstown Ball Cap Co. (607 264-8294) makes reproductions from major and minor league clubs dating to the 1860s. The wool-flannel

caps cost \$44; \$4 for shipping. ■ **MASTER BAKER.** The seven varieties of Brownies on Tour—plain fudge to "Anjou," laced with pear *eau de vie*—come in ounce bricks, costing \$22 to \$25. Call 800 736-4069 to order.

Index to Companies

Index gives the starting page for a story or feature with a significant reference to a company. Most companies are indexed under their own names. Companies listed only in tables are not included.

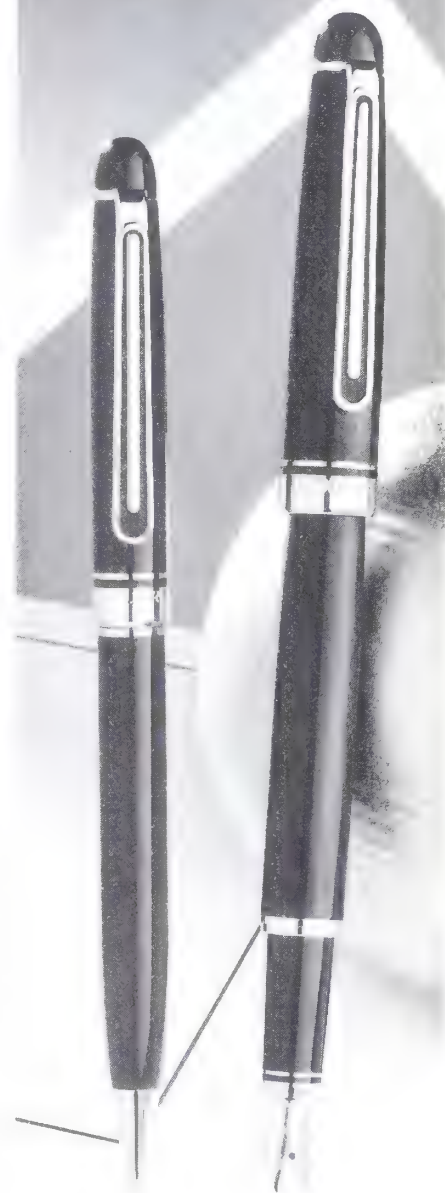
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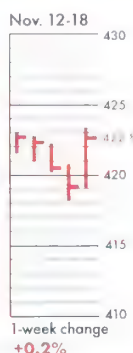
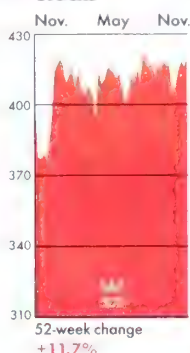
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Investment Figures of the Week

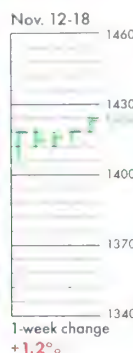
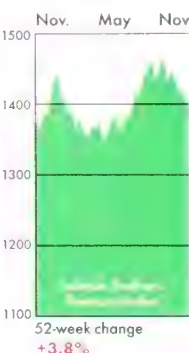
MARKET COMMENTARY

Market investors continue to give their thumbs—waiting a while from President-elect Clinton to see how stimulative a fiscal program will propose in January. Low industrial were held by another down week for which fell to its lowest close in more than a decade. The S&P 500 rose by 0.2%, while small cap showed a 0.4% rise. Bonds, as the 30-year Treasury went well, but short-term rates moved up on signs the economy is strengthening.

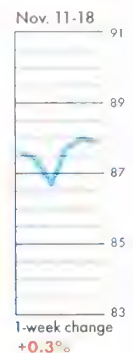
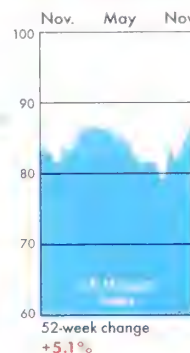
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
INDUSTRIALS	3207.4	-1.0	9.5
COMPANIES (Russell 1000)	225.8	0.1	12.9
COMPANIES (Russell 2000)	207.8	0.4	16.7
COMPANIES (Russell 3000)	241.0	0.1	13.2

IGN STOCKS	Latest	% change (local currency) Week	% change 52-week
ON (FINANCIAL TIMES 100)	2704.0	0.3	9.4
(NIKKEI INDEX)	16,778.8	2.8	-27.7
TO (TSE COMPOSITE)	3231.7	-1.7	-7.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.21%	3.14%	4.61%
30-YEAR TREASURY BOND YIELD	7.51%	7.67%	7.90%
S&P 500 DIVIDEND YIELD	2.96%	2.96%	3.24%
S&P 500 PRICE/EARNINGS RATIO	22.8	22.8	21.0

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	414.9	414.6	Positive
Stocks above 26-week moving average	49.6%	47.2%	Neutral
Speculative sentiment: Put/call ratio	0.39	0.37	Neutral
Insider sentiment: Vickers sell/buy ratio	1.77	2.00	Positive

INDUSTRY GROUPS

WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
COMMUNICATIONS EQUIPMENT	21.3	-2.6	SCIENTIFIC ATLANTA	22.8	131.1	34 3/8
MACHINE TOOLS	19.8	87.4	CINCINNATI MILACRON	21.2	114.1	17 1/8
EL	18.6	17.1	BETHLEHEM STEEL	27.1	2.9	13 1/2
CKING	14.3	13.9	YELLOW FREIGHT SYSTEM	20.1	-5.0	28 3/8
TAURANTS	12.4	37.9	SHONEY'S	28.9	13.6	24
WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
LD MINING	-13.9	-15.7	NEWMONT MINING	-16.8	-1.9	38 1/4
WELL EQUIPMENT AND SERVICES	-13.5	-6.0	BAKER HUGHES	-17.4	-7.6	19 5/8
EXPLORATION AND PRODUCTION	-10.6	-26.1	SANTA FE ENERGY RESOURCES	-13.3	-30.1	8 1/8
AND GAS DRILLING	-10.0	22.5	ROWAN	-10.8	32.0	8 1/4
HOSPITAL MANAGEMENT	-6.3	-17.4	HUMANA	-21.2	-19.5	18 5/8

MUTUAL FUNDS

ERS	Week total return	%	LAGGARDS	Four-week total return	%
SATCH AGGRESSIVE EQUITY	17.5		DFA JAPANESE SMALL COMPANY	-11.6	
BBBE HUSON GROWTH	16.5		MONITREND GOLD	-11.3	
PENHEIMER GLOBAL BIO-TECH	16.4		CAPSTONE NIKKO JAPAN	-11.0	
Week total return	%		52-week total return	%	
ELITY SELECT SAVINGS & LOAN	61.7		LEXINGTON STRATEGIC INVESTMENTS	-60.9	
MARK	46.8		UNITED SERVICES GOLD SHARES	-55.0	
ELITY SELECT FINANCIAL SERVICES	44.1		CAPSTONE NIKKO JAPAN	-35.1	



RELATIVE PORTFOLIOS

Amounts sent the present of \$10,000 one year ago

portfolios

Figures indicate total returns

U.S. stocks
\$11,383
+0.16%

Treasury bonds
\$11,183
+1.95%

Money market fund
\$10,305
+0.05%

Foreign stocks
\$9,214
-1.62%

Gold
\$9,171
+1.00%

Figures on this page are as of market close Wednesday, Nov. 18, 1992, unless otherwise indicated. Mutual fund returns are as of Nov. 13. Relative portfolios are valued as of Nov. 17. A more detailed explanation of this page is available on request.

HOW TO SPREAD THE GOSPEL OF QUALITY

Big U.S. corporations on the front lines of the global economy have taken to heart the principle that success begins with high quality, to the advantage of consumers and workers alike. Defect rates on U.S.-built cars are barely distinguishable from those of their Japanese counterparts, and companies such as Xerox and Motorola have become case studies in how quality drives corporate performance.

But there are still plenty of medium- to smaller-size U.S. companies to be enlisted in the effort. Many smaller companies have yet to achieve even a rudimentary understanding of how to achieve higher quality (page 66).

A lot is at stake. Most new jobs in the economy are created by smaller companies. They account for one-half of U.S. exports. And big manufacturers, whether of computers or industrial machinery, often rely on smaller suppliers for more than half the value of finished products.

Recognizing this, bigger companies, most notably in the auto and electronics industries, have set stringent quality standards for suppliers. More important, the Big Three and other companies are working with suppliers to demonstrate how to achieve higher quality. That still leaves plenty of smaller companies without guidance, particularly if they are too small to afford the consultants willing to offer advice for a fee.

Here, then, is an area where government and nonprofit institutions can play a key role. Sixteen states have initiated their own versions of the Commerce Dept.'s prestigious Baldrige award to provide guideposts to upgrading quality. The Minnesota Council for Quality, a private-sector initiative, also provides grants to local chambers of commerce for education. The nonprofit American Productivity & Quality Center collects and disseminates information that lets companies compare their procedures with the best in various fields through benchmarking.

These programs deserve the support of Corporate America and taxpayers. Another initiative long advocated by BUSINESS WEEK, a nationwide network of technology extension services offered through federal research laboratories or community colleges, would also help. The skills and the information to significantly enhance the competitiveness of a critical part of U.S. business already exist. A small investment in spreading knowledge would pay big dividends.

THE LINE-ITEM VETO: WORTH THE FIGHT

Like most governors, Bill Clinton used his power to veto individual line items in appropriations bills as a lever to get his way with his legislature. Now, Clinton wants to wield the same weapon as President against Congress. He has a good chance to win that authority because many of the

100-plus newly elected House members campaigned in favor of the idea. He should go for it.

By itself, the line-item veto can't do much to reduce deficit. The big budget-busters—health care, retirement payments, interest on the national debt—are not subject to annual appropriations. And as the Bush Administration learned, a President who wields his veto pen indiscriminately is drowning in a sea of negativism. At best, a determined President might kill a few billion dollars' worth of unnecessary spending a year—a small dent in a \$300 billion deficit.

What's really at issue is the relative power of the White House and Congress to control spending—and hence the domestic agenda in general. The ability to kill individual expenditure items, unless two-thirds of Congress votes to keep them, would give a President a powerful rein on Congress's free-spending biases. So powerful, in fact, that a wary Democratic congressional leadership has already suggested a fudge: Congress could restore the line items with a simple majority vote. A noncommittal Clinton termed this a "good place for us to begin discussion."

We think the President-elect should push to fulfill his campaign pledge. That way, by taking on a Democratic congressional leadership loath to surrender any of its prerogatives, he will immediately establish his *bona fides* as a fiscally responsible New Democrat.

PLAYING FAIR IN THE AIR

International ownership of airlines is coming, like it or not. It is the inevitable result of growing multinational business alliances, which require increased global travel, and the fierce competition within the airline industry to serve these travelers.

In itself, there's nothing wrong with foreign investment in U.S. airlines. Indeed, much can be said for it. In the introduction of KLM's and Northwest Airlines' services, the infusion of foreign capital and combined route structures could insure the survival of a weak carrier, if it works. There is potential for a strong airline to emerge with the financial resources to afford modern, safe equipment and also provide competition for the traveler's dollar.

The U.S. is by far the largest single air travel market in the world, and that, of course, is the lure for foreign airlines to tap into it. But BUSINESS WEEK believes that Washington should permit this only when U.S. airlines are allowed the same access in the investor's home market.

A precedent-setting case is now before the U.S. government with British Airways' bid to buy into USAir, a deal that would give BA virtually unlimited access to the U.S. In contrast, Whitehall imposes severe limitations on American air service to Britain. German (Lufthansa) and French (Air France) airlines have also expressed a desire to invest in U.S. airlines, but both countries also want to slap stiff restrictions on American air service there. So far, the British have refused to ease their restrictions. The U.S. should send all of them an unmistakable message by refusing to approve the BA-USAir deal until London expands access.

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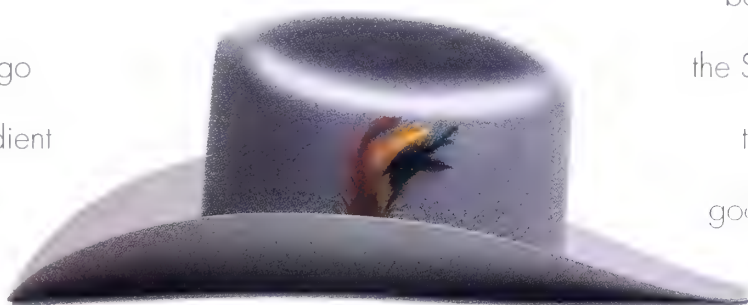
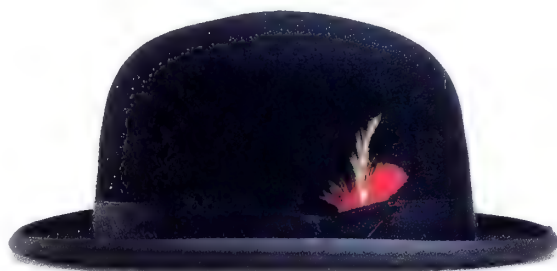
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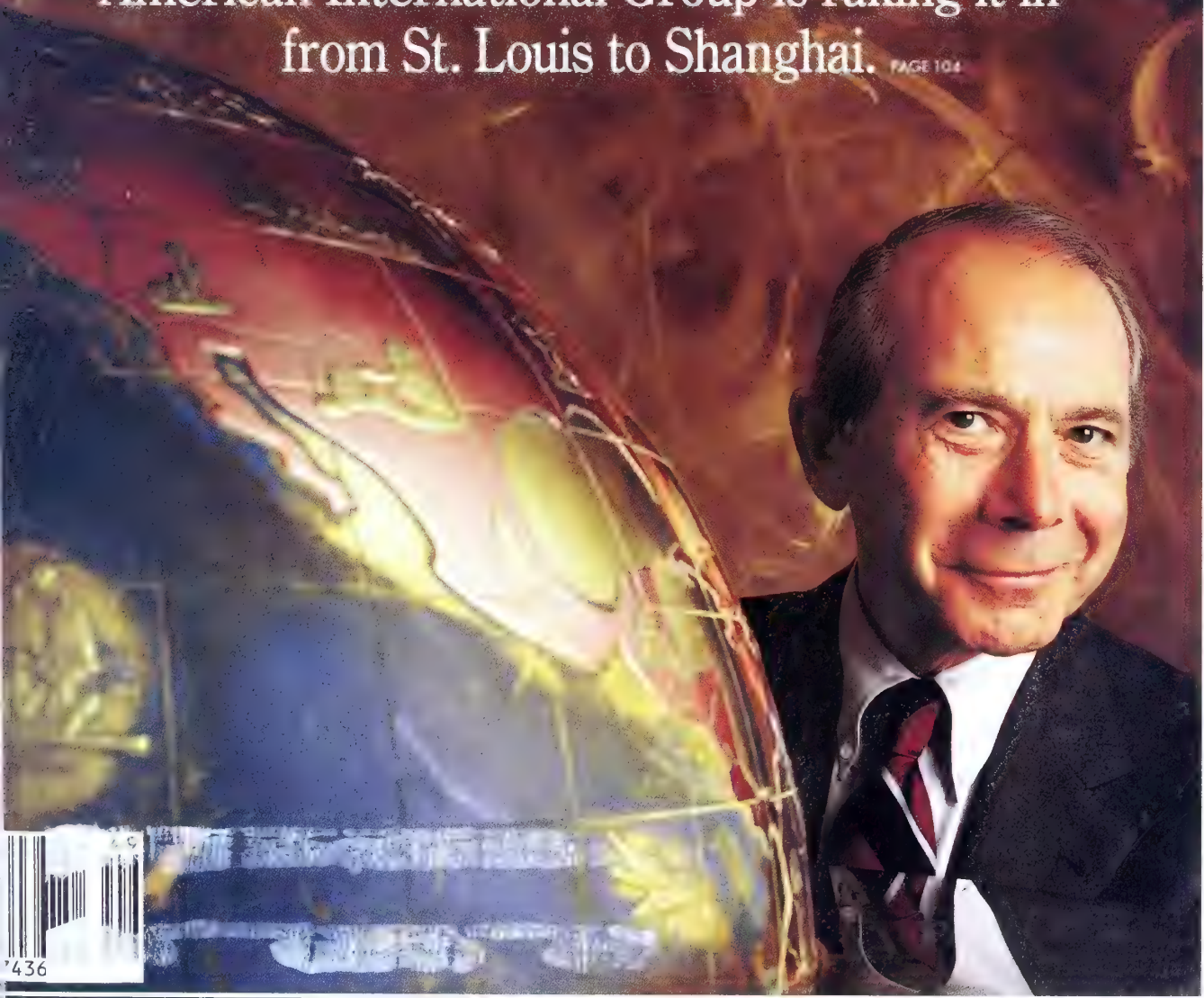
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MR. RISK

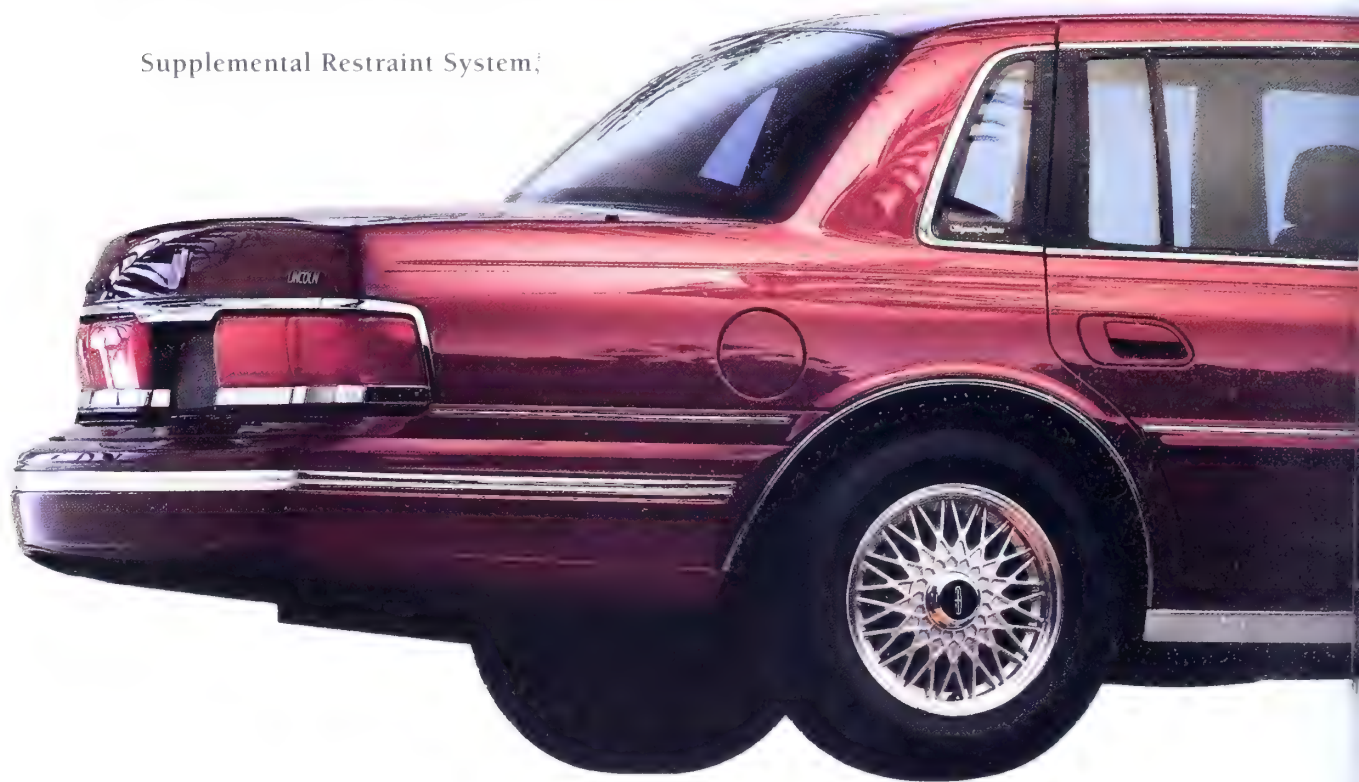
Don't tell Hank Greenberg there's an insurance crisis.
American International Group is raking it in
from St. Louis to Shanghai. PAGE 104



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Cover Story

104 MR. RISK

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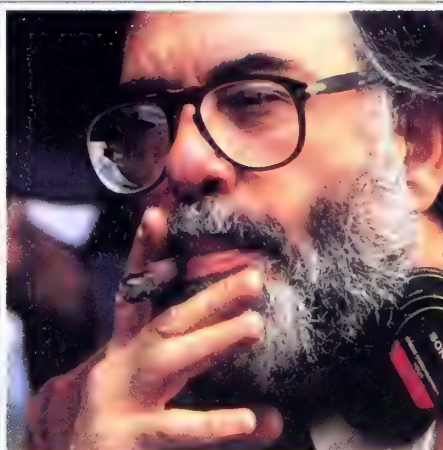
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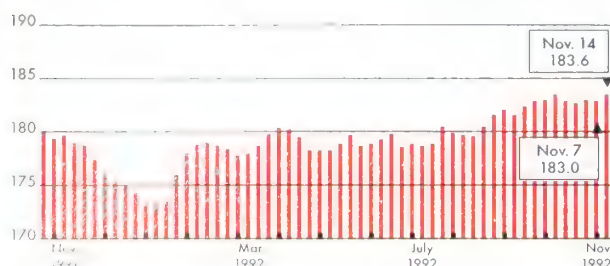
Tigers, tigers, burning bright
Westinghouse's do-little board
GATT: Bush is no lame duck

BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 2.5%

1967=100 (four-week moving average)

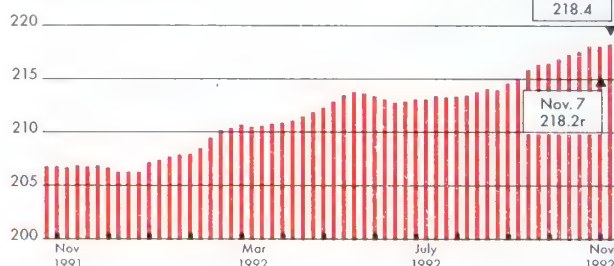


The production index inched up during the week ended Nov. 14. On a seasonally adjusted basis, output levels of autos, trucks, and coal were up sharply, while steel and lumber production and rail-freight traffic increased as well. Paperboard output declined, and electric power and crude-oil refining production were unchanged from the previous week. Before calculation of the four-week moving average, the index rose to 184.5, from 182.3.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 5.5%



The leading index increased during the week ended Nov. 14. Higher stock prices, a sharp drop in the number of business failures, and faster growth in real estate loans offset a small rise in bond yields and deterioration in the growth of materials prices and M2. Plus, the recent drop in jobless claims is causing upward revisions to the leading index of previous weeks. Before calculation of the four-week moving average, the index rose sharply to 219.3, from 218.1 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (11/21) thous. of net tons	1,739	1,726#	-1.6
AUTOS (11/21) units	105,087	128,908r#	-6.2
TRUCKS (11/21) units	94,654	96,325r#	22.6
ELECTRIC POWER (11/21) millions of kilowatt-hours	56,047	55,471#	5.8
CRUDE-OIL REFINING (11/21) thous. of bbl./day	13,473	13,591#	1.8
COAL (11/14) thous. of net tons	20,258#	18,936	1.5
PAPERBOARD (11/14) thous. of tons	786.3#	804.9	4.3
PAPER (11/14) thous. of tons	793.0#	788.0r	2.2
LUMBER (11/14) millions of ft.	488.6#	477.2	-5.9
RAIL FREIGHT (11/14) billions of ton-miles	22.2#	21.6	3.7

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPFA, SPPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (11/24)	124	124	130
GERMAN MARK (11/24)	1.61	1.59	1.63
BRITISH POUND (11/24)	1.52	1.52	1.76
FRENCH FRANC (11/24)	5.45	5.37	5.58
CANADIAN DOLLAR (11/24)	1.29	1.27	1.14
SWISS FRANC (11/24)	1.44	1.45	1.44
MEXICAN PESO (11/24)	3,101	3,097	3,073

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (11/24) \$/troy oz.	334.300	335.100	-8.7
STEEL SCRAP (11/23) #1 heavy, \$/ton	89.00	89.00	-5.3
FOODSTUFFS (11/20) index, 1967=100	202.4	202.5	-0.6
COPPER (11/21) c./lb.	100.5	100.5	-7.8
ALUMINUM (11/21) c./lb.	53.3	53.0	1.3
WHEAT (11/21) #2 hard, \$/bu.	3.77	3.70	2.2
COTTON (11/21) strict low middling 1-1/16 in., c./lb.	50.79	50.28	-5.5

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/20) S&P 500	422.61	420.94	11.2
CORPORATE BOND YIELD, Aaa (11/20)	8.07%	8.14%	-4.6
INDUSTRIAL MATERIALS PRICES (11/20)	96.5	96.0	0.8
BUSINESS FAILURES (11/13)	344	417	0.9
REAL ESTATE LOANS (11/11) billions	\$402.1	\$400.9r	-1.1
MONEY SUPPLY, M2 (11/9) billions	\$3,438.1	\$3,439.8r	1.0
INITIAL CLAIMS, UNEMPLOYMENT (11/7) thous.	386	355	-21.7

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Oct.) annual rate, thous.	1,229	1,243	13.3
BUDGET SURPLUS OR DEFICIT (-) (Oct.) millions	-\$48,865	\$5,401r	-33.5
ORDERS FOR DURABLE GOODS: MFG. (Oct.) billions	\$124.4	\$119.7r	3.5
MERCHANDISE TRADE BALANCE (Sept.) billions	-\$8.3	-\$8.9r	-28.3

Sources: Commerce Dept., Treasury Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/9)	\$1,018.8	\$1,016.9r	15.1
BANKS' BUSINESS LOANS (11/11)	278.9	279.7r	-6.9
FREE RESERVES (11/11)	678	953r	-15.4
NONFINANCIAL COMMERCIAL PAPER (11/11)	149.0	149.1r	10.3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/23)	2.89%	3.06%	4.68%
PRIME (11/24)	6.00	6.00	7.50
COMMERCIAL PAPER 3-MONTH (11/23)	3.77	3.83	4.90
CERTIFICATES OF DEPOSIT 3-MONTH (11/24)	3.68	3.77	4.90
EURODOLLAR 3-MONTH (11/21)	3.79	3.61	4.98

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1 = Western Wood Products Assn. 2 = Southern Forest Products Assn. 3 = Free market value NA = Not available r = revised NM = Not meaningful

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AN INHALER'S PAEAN TO THE PATCH

Because of my own experience with the Habitrol transdermal nicotine patch, I read Joan Warner's story with great interest and a modicum of dismay ("Confessions of a nicotine-patch wearer," Personal Business, Nov. 9).

Poor Joan. She didn't make it. And she had smoked only for 23 years. But then, I avoid rock concerts.

To be fair to the patch, I think your readers deserve at least one success story. I am 61 years old. I began smoking when I was 19, way back in 1950. That's 42 years. I had my last cigarette (a Benson & Hedges Lights 100) on Sunday, Feb. 2, of this year. I began with the 14-milligram patch, stuck it on my upper body for 30 days, then weaned myself with the 7-milligram device for about six weeks. My last patch was on Thursday, May 7, 1992, on an Aer Lingus 747 bound for Ireland. I haven't smoked or worn a patch since. And I needed no support group or soothing audio tapes to get through it.

So it was nine months ago today that I last smoked. I consider it a minor miracle that I haven't had the urge even once to resume the habit. It doesn't even bother me when others around me smoke.

But I'll tell you what does bother me. I haven't felt good since I quit. For one thing, I've gained 22 pounds. Now if they only would invent a Ben & Jerry's Rocky Road transdermal patch!

James C. Duffy
 Stamford, Conn.

ANYWAY YOU LOOK AT IT, THE NATIONAL DEBT IS BAD

Paul Craig Roberts' assumption that the debt is small compared with 1946 (127% of gross national product) is simplistic and irrelevant ("The deficit isn't public enemy No. 1," Economic Viewpoint, Nov. 9). In 1946, the U.S. owned world exports because all of our competitors were blown to bits. We had tremendous pent-up demand for virtually any consumer product. Ten years of depression and five years of war created

that. This resulted in tremendous job growth.

Contrast that to today's situation: A growing number of able competitors, a work force poorly prepared for high-technology employment, an aging population consuming entitlements at an ever greater rate, fewer families being formed to fuel the consumer-products market and pay for entitlement programs, and no job growth.

Currently, we are doing nothing to reduce the deficit. If next year's deficit is \$400 billion, that will grow the debt by about 10%. Show me an economy that is growing its productivity by 10% a year. There are none. The only way we can grow out of this debt is by balancing the budget so that the debt no longer grows. Until then, the percentage of taxes swallowed by the debt will increase every year.

For my part, I would just as soon not test the 127% level again.

Dennis L. Roubal
 Financial Growth Concepts
 Haslett, Mich.

Editor's note: Paul Craig Roberts responds that since 1985, the growth of U.S. manufacturing exports has far outstripped the growth of Japanese and German exports—and that today's exports are a larger share of GDP than in the immediate postwar period.

WITNESS THE BEAUTY OF AFRICA—AT ANY TIME

Rely on BUSINESS WEEK more than any other single source in managing the African Wildlife Foundation. But the expertise, so apparent in financial matters, was left out of your coverage of exotic travel ("Ferocious Splendor," Personal Business, Nov. 16), when the writer repeated the old canard that implied your readers should see Africa "before it's too late."

Would that the national parks in America were improving in management of natural resources as quickly as those in Kenya, Tanzania, Uganda, and elsewhere. Certainly, Africa has many serious problems and crises, but it's a disservice to the positive steps and accomplishments of millions of local Af-

BUSINESS WEEK
 DECEMBER 7, 1992 ***3296
 ISSN 0007-7135



Published weekly except for one issue in January by McGraw-Hill Inc. Founder James H. McGraw (1860-1948). Executive, Editorial, Circulation and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone (212) 512-2000. Domestic Telex 127960. International Tel- ex 232655. Cable McGraw-Hill New York, TWX 710-581-0759. U.S. subscription rate \$44.95 per year, 2 years, \$74.95, 3 years, \$99.95. Single copies, \$2.75. Write for rates in other countries. Subscriber Services 1-800-485-1200. TDD 1-800-554-1579.
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Readers Report

an citizens to trot out the old warn-
g—get there while there's still some-
ng to see.

Paul T. Schindler
President
African Wildlife Foundation
Washington

MERCEDES' NEW S CARS: THE 'S' STANDS FOR STICKER SHOCK

In the article "Downshift at Daimler"
(The Corporation, Nov. 16), you note
that "Mercedes' top-of-the-line S-class
cars...are turning in disappointing
sales." Then you ask if the S-class cars
have "too high a price."

Let me tell you how high. In June of
last year we purchased a new 420-SEL
with a sticker price of \$63,000. The cur-
rent equivalent car, a 400-SEL (the 420-
SEL is no longer in production), has a
sticker price of \$81,000.

When you add the increased luxury
tax and additional state sales taxes, this
price increase comes to a huge 34%.
Think I'll drive my current Mercedes-
Benz for a few more years.

Roger Tyndall
Fernandina Beach, Fla.

THE BUG THAT'S WIPING OUT THE FAMILY GP

The reason America has too few fam-
ily doctors ("Is there a family doctor
in the house?," Science & Technology,
Nov. 2) is not because of any shift to-
ward specialization at medical schools or
any question of academic prestige. It is
economics 101, pure and simple.

The plan referenced in the story is a
payment schedule called the Resource
Based Relative Value Scale, which was
developed under the mandate of Con-
gress by a team of economists headed
by William Hsiao of Harvard University.
After the Health Care Financing Admin-
istration (HCFA) implemented the plan on
Jan. 1, 1992, Hsiao asserted that the av-
erage office visit takes 12 minutes. The
formula says that the [overhead] cost
for that visit should be \$12. That amount
definitely will not reimburse the physi-
cian for the actual practice cost—which
probably twice as much. Your readers
doubtedly know that a business enter-
prise that spends \$24 on overhead ex-
penses in providing a service, but only
collects \$12 for it, will soon be out of
business.

The reason physicians flock to hospi-
tal-based specialties is not because of
academic prestige, either. The technical
overhead of a physician's work at a hos-
pital is completely absorbed by separate
charges made by the hospital. Thus, the
hospital-based specialist is a beneficiary

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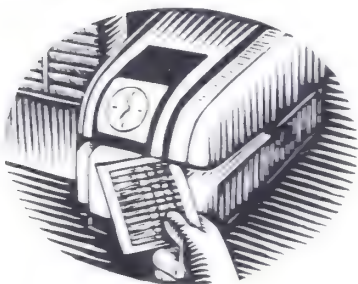
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Readers Report

a very lucrative profit margin. The ly expenses a hospital specialist has to ver are the costs of malpractice insurance and of sending a bill. The overhead hospital-based specialists can be as w as 15% of income, leaving a profit margin of 85%. The office-based family ctor, on the other hand, has nurses, ase payments, equipment, supplies, d costly government regulations, as ell as malpractice and billing expenses. he family doctor has overhead of up to %, leaving a profit margin of only one-ird of the hospital specialist.

In the implementation of HCFA, many mily doctors are making substantially ss than previously. The consequence of is misguided policy is a crowd of hospi-l specialists and a dearth of family ctors.

Everyone wants family doctors, but obody will pay their legitimate office erhead. HCFA and the American public ill get what they will pay for. Basic onomics explains the unrelenting de-ise of the family doctor.

Martin L. Proudfoot, M. D.
Edmonds, Wash.

'ONE-STOP' OUTLINE FOR EXPORTERS

n regard to "An export service of great import" (Personal Business, pt. 28), you neglected to mention a ew and innovative service offered by e Commerce Dept. to help small busi-esses in their exporting efforts.

In May, 1990, President Bush created e Trade Promotion Coordinating Com-ittee (TPCC) to better focus federal ade promotion programs. Comprised of 9 agencies, the TPCC aims to fully inte-ate federal trade promotion resources.

Moreover, the TPCC created the Trade nformation Center located in the Com-erce Dept., which serves as a "one-stop op" center for information on exporter ssistance programs available from the ederal government. You pointed out in our article that an exporter can "get aught up in endless calls trying to lo-ate information." To solve this problem, e Trade Information Center serves as e first point of contact for potential xporters needing assistance. Callers an reach the center at its toll-free num-er, 800 872-8723 (800 USA-TRADE), week-ays from 8:30 a.m. to 6 p.m. EST. In its rst year, the center received more than 0,000 calls from businesses across the S.

The center's trade specialists advise xporters on how to locate and use gov-ernment programs and guide them ough the export process. The staff is eady to answer questions ranging from ow to respond to an international order

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Readers Report

CORRECTIONS & CLARIFICATIONS

In "Fewer pieces, a better fit" (Financing the Future, Reinventing America, Special Bonus Issue), a caption misidentified the individual pictured as "The Adviser." The photo was of Mark Baumann, financial consultant at the Federal Investment Center in Grand Island, Neb.

In "Lighting a fire at 'Camp DNA'" (Science & Technology, Nov. 16), we referred to a \$70 million grant received by the Institute for Genomic Research in Gaithersburg, Md. The grant was not from the federal government, but from Human Genome Sciences Inc.

...locating the top foreign markets for a particular product. The Trade Information Center also maintains state files with information on export assistance offered by local economic development agencies, world trade centers, chambers of commerce, Small Business Development Centers, and other groups involved in export promotion.

Much of the information provided by the trade specialists originates from the Commerce Dept.'s National Trade Data Bank (NTDB), a CD-ROM that is published monthly containing over 90,000 trade-related documents. Many of the reports from the NTDB are used by the export line.

Thomas A. Cox
Director
Trade Information Center
Washington

PEROT'S PEOPLE WERE EVERYBODY'S 'FOLLOWERS'

Why do you and other media insist on calling supporters of Ross Perot "followers" ("Now, who will harass Perot's third force?," Cover Story, Nov. 16)?

Have you at any time said followers of George Bush or perhaps followers of Bill Clinton?

In my opinion, anyone who supported either of those two candidates are the real followers—following an outdated two-party system that only offers us two sides of the same coin and no real choice.

K. Kramer
San Rafael, Calif.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4464, telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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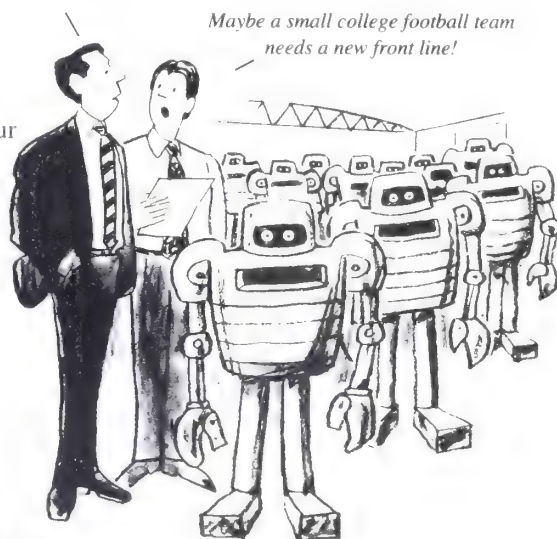


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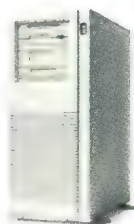
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HOMESTEAD: THE GLORY AND TRAGEDY OF AN AMERICAN STEEL TOWN

By William Serrin

Times Books • 452pp • \$25

STEEL TOWN AMERICA: USED UP AND SHUT DOWN

In the late 1980s, some Pittsburgh citizens began a project to redevelop the nearby Monongahela Valley towns recently abandoned by the steel industry. Dozens of architects from the U. S. and Britain visited Homestead, Pa., home of the famous mill that made steel for the Empire State Building and World War II battleships. Plans were drawn up to use some of the gigantic facilities as a museum and turn the riverbank into an esplanade with a pleasure-boat landing.

At a public meeting to present their ideas, the architects got an earful. The people didn't want tourist attractions; they wanted the region's mills to reopen. "We have a national disaster here in Homestead," said one resident, listing the used-up men recently dead of heart attack, stroke, or suicide. Half the town's former steelworkers were on the

dole or working at minimum-wage jobs, he said. "We want to make the valley come back," shouted another.

In the end, neither side won. The mills were torn down, and Homestead and its neighbors are becoming ghost towns. Now, William Serrin, a former *New York Times* labor reporter, has written a memorial, *Homestead: The Glory and Tragedy of an American Steel Town*. The book is far broader than its title indicates: Serrin's nostalgic history of Homestead is wrapped around an account of the making of United States Steel Corp. and its partner in production, the United Steelworkers of America. Indeed, the vivid depiction of the growth of the company and the union—and the comfort and complacency that undid them—is Serrin's real achievement.

Two events resonate through the

book: the nearby defeat, in the French and Indian War, of British General Edward Braddock, a victim of his own ignorance and arrogance, and the epic 1892 Homestead lockout and strike.

In Braddock's failure to adapt to the New World's skirmishing style of fighting, Serrin sees a parallel with the inertia of corporate and union leaders two centuries later. The 1892 lockout was a blow to the human spirit. Determined to end unionism in the Mon Valley, Andrew Carnegie, Homestead's owner, sent armed Pinkerton guards to occupy the mill and admit strikebreakers. A 12-hour battle ensued, in which seven workers and three guards died. Five days later, the uprising was quelled by the militia. Of 2,200 strikers who sought reinstatement, only 400 were rehired. "Forever after," says Serrin, "much of the energy, the independence—the grit—that had characterized the town was gone."

The strike's defeat was a prelude to the emergence of perhaps the most remarkable corporation ever: U. S. Steel. Carnegie had already built a colossus with holdings in natural resources, transportation, and iron and steel manufacturing. Then, J. P. Morgan bought it for \$480 million and added holdings to

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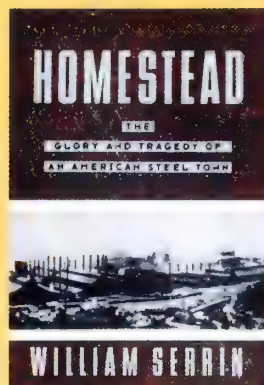
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combine under one management 65% of America's steel industry.

Serrin draws compelling biographies of U.S. Steel's successive chieftains and their approaches to industrial relations. From the early 1900s, the chairman was Elbert H. Gary, a "cold-eyed Methodist lawyer." To stave off unionization, Gary instituted a broad program of welfare capitalism. When, in 1919, the workers nonetheless struck, the company suppressed them brutally. Thereafter, to control steel towns, management exploited ethnic tensions and used spies, bribes, and the corruption of clergy and politicians.

In the 1930s came colorless Myron C. Taylor, who used company unions to manipulate employees. But after smashing several independent organizing drives, he abruptly changed tack, agreeing in 1937 to recognize the fledgling Committee for Industrial Organization (CIO) steelworkers' union. The pact he hammered out with CIO Chairman John L. Lewis gave workers almost everything

S*errin depicts the growth of U.S. Steel, the Steelworkers, and the complacency that undid them*



they had sought in 1919. One reason: Taylor badly wanted labor peace so he could bid for British war contracts.

Suddenly, the union had 500,000 members. "The steelworkers were organized, but they had not organized themselves," observes Serrin. And therein, he shows us, lay the rub. This union would be for but not of the workers, making up in padded payrolls and perks what it lacked in democratic structure. Its prototypical leader would be David J. McDonald, a near-caricature of the bourgeois-aping

shut more than 40 plants. By 1984, 40% of industry workers were laid off. Protests by outraged Homestead residents were of no avail. U.S. Steel bought Marathon Oil Co. and became USX Corp. In 1986, the Homestead Works closed. The mills were dismantled. In the last words of the defeated Braddock, Serrin finds Homestead's epitaph: "Who would have thought it? All is over."

BY HARDY GREEN

BW Copy Editor Green is making a study of company towns.

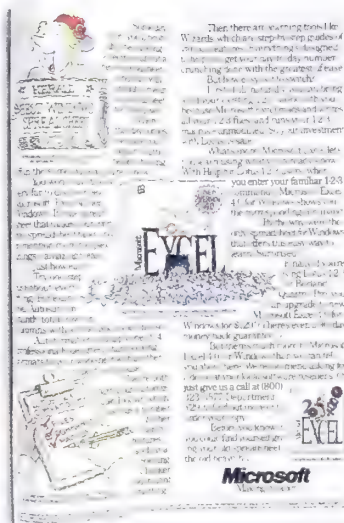
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Facts.

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Microsoft claims that Excel will read and write all your Lotus® 1-2-3 spreadsheet files and run your 1-2-3 macros unmodified.

Not true.

Excel can't preserve 1-2-3 DOS formulas containing a 3D range. It can't convert a number of .WK3 files to Workbooks. And it can't run 1-2-3 macros containing commands from versions dating back to Release 2.01.

More hype? Their ad also tells you that a 1-2-3 user need only type in a 1-2-3 command and Excel will show the equivalent command.

Wrong again.

The fact is, Excel can't execute your familiar commands from Releases 2.2, 2.3, 2.4 and 3.1. Try pressing /, Range, or Arch in Excel and guess what happens. Absolutely nothing.

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If you're a spreadsheet user who needs to access external databases, 1-2-3 for Windows remains unmatched—particularly if you need relational capabilities. Excel's data access capabilities, on the other hand, rest on a third-party product that offers limited relational capabilities. Which explains why *Corporate Computing* (August 1992) recently wrote that "for the experienced 1-2-3 database user, 1-2-3 for Windows with DataLens® is the front-end tool of choice."

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After all, it only makes sense to base your spreadsheet decision on facts rather than hype.

Lotus 1-2-3 for Windows

FINDING FAULT WITH NO-FAULT DIVORCE

BY GARY S. BECKER



A woman with young children can't stop her husband from divorcing her, no matter how much hardship it might cause. If her consent were needed, she would have the leverage to strike a better bargain

Both President Bush and President-elect Clinton repeatedly mentioned family values during the campaign, but neither proposed reforms that would significantly strengthen family life. Overlooked in the headline-grabbing attention to Murphy Brown, gays, and the family-leave bill are the pernicious consequences of radical changes in divorce laws during the past 20 years.

In 1970, California became the first state to allow no-fault divorce. Since then, practically all states have adopted similar statutes. No-fault makes it possible to obtain a divorce without the consent of the spouse and without proving guilty behavior, such as adultery. California's approach was hailed by women's groups and others as a civilized step that would be a great boon to women trapped in bad marriages.

It hasn't worked out that way. Scholarly research does not blame the no-fault provision for the boom in divorces during the '70s and '80s—that would have happened anyway—but it does hold no-fault responsible for many of the problems of divorced persons, especially women with children.

MUTUAL CONSENT. Under current law, a married woman with young children cannot stop her husband from divorcing her, no matter how much hardship she and her children would suffer. Since child-support payments are often meager, she faces a bleak financial future where she must work long hours or go on welfare just to make ends meet. The plight of these divorced women and their children—who now constitute almost 20% of all households—is among the most serious family problems in Britain, Canada, the U.S., and many other countries.

It is neither desirable nor possible to turn the clock back to the '60s, when most states did not allow divorce without proof of adultery, desertion, or abuse. What can be done to improve the situation of these families? The no-fault experiment should be abandoned and replaced by laws that allow divorce only when both the husband and wife agree—what is called divorce by mutual consent.

This change would greatly improve the bargaining power of the many married persons, especially women, who are hurt by no-fault. Consider a husband who very much wants a divorce and cares little about the harmful effects on his wife and children. Under present divorce law, his wife can do little to stop him, but if her consent were needed, she would have leverage. She could refuse unless the husband agrees to liberal child-support payments, a generous division of their assets, and other conditions. She need not agree until he

convinces her that he would actually carry out his promises regarding child support. And she does not have to let him have his way in the marriage under threats that he will divorce her.

Children of divorced parents, especially boys, often suffer emotionally because of limited contact with their fathers. There is no perfect solution for this problem, but under the reform I propose, a mother concerned about how a divorce would affect her children could withhold consent until her husband pledged in writing to see them frequently, possibly through joint custody.

FAILED EXPERIMENT. No-fault divorce laws discourage married women from leaving the workforce for several years to care for their young children, because they realize that they will need good jobs if their husbands ditch them. Under mutual consent, women would be more able to stay home for a spell after having children, if they wanted to, because they would then have much less reason to fear being left in a financial bind.

Judges now have a large part in divorce proceedings, even though they may not have enough knowledge to fit custody and support provisions to individual circumstances. Mutual consent laws would reduce their role in divorce procedures, for couples would be required to work out their own terms as part of the consent process. There is every reason to expect that privatizing divorce proceedings—taking the judiciary out of them—would make them work much better, just as privatizing other activities has brought improvement (Economic Viewpoint, BW—Aug. 17).

No divorce law can solve all the problems created by failed marriages. A bitter or spiteful spouse may refuse to consent to a divorce no matter how generous the terms—even if the husband and wife live separately for many years. This difficulty can be partially overcome by allowing a person to seek binding private divorce arbitration if the spouse has not agreed to divorce terms after several years of separation.

Most of the main changes in family structure during the past half-century cannot be reversed, for they are the inevitable result of the growth of women's employment, the decline in birth rates, and other developments analyzed in my book *A Treatise on the Family*. But the widespread adoption of no-fault divorce is an experiment that failed. If no-fault were replaced by laws that require mutual consent to divorce, high divorce rates would cause much less harm to young children and to the women and men who do not want their marriages to break up.

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Economic Trends

BY GENE KORETZ

IS CAPITAL INVESTMENT TAXIING UP THE RUNWAY FOR TAKEOFF?

Bill Clinton's pledge to spur both public and private investment could, assuming it is implemented, contribute to a "surprisingly strong and long upswing in the capital-spending cycle." So argues economist Joseph G. Carson of Dean Witter Reynolds Inc., who points out that tax credits to stimulate capital spending should reinforce the effects of other emerging factors that favor investment.

Perhaps the most intriguing development is a recent change in the famous "Q" ratio, the name chosen by Yale University economist James Tobin to desig-

Indeed, Carson points out that a strong capital-spending upswing failed to develop in the early 1980s despite favorable tax laws precisely because the market value of financial assets was at a historical low relative to real assets. So, many companies either went on acquisition binges or bought up their own shares. "In other words, it was cheaper to buy another company than to build or expand one's own asset base."

Now, however, the pendulum has swung in the other direction, and it's cheaper to build than to buy. At the same time, manufacturing operating rates are 8 to 10 percentage points above where they were when the past two cyclical upturns began, while the average age of the factory sector's capital stock has reached a 40-year high. And for the first time in recent memory, corporations have been generating significantly more cash internally than they have been devoting to capital spending.

In sum, says Carson, "the underpinnings of a strong upswing in business investment are falling into place."

THE 'Q' RATIO FLASHES GREEN FOR CAPITAL SPENDING



DATA: FEDERAL RESERVE BOARD, DEAN WITTER REYNOLDS INC. ESTIMATE

nate the relationship between the value the stock market places on corporations, on the one hand, and the current cost or replacement value of their physical assets, on the other. According to Tobin's theory, businesses tend to accelerate capital investment when the Q ratio moves above 1—that is, when their stock market value exceeds the cost of replacing their physical assets. And Carson's calculations, based on current equity prices and recent investment spending, suggest that this ratio has finally edged above 1 this year for the first time in more than two decades.

A high Q ratio tends to spur capital spending because it tells companies that additional investment in new equipment is likely to create capital gains for their shareholders. By contrast, when the stock market values corporations' physical assets at less than their replacement cost, managements will tend to seek other uses for their cash.

WHY THE U.S. HAS 'A LOT TO PLAY FOR' IN EASTERN EUROPE

The U.S. and other industrial nations should reap the benefits of billions of dollars in increased trade if former Soviet bloc countries are successfully transformed into market-driven economies. That's the conclusion of a recent study by L. Alan Winters and Zhen Kun Wang of the University of Birmingham.

Their econometric model depicts what East bloc trade would have looked like in 1985 if the nations had had market-based rather than centrally planned economies. It indicates that East bloc trade with the developing world would not have differed significantly from the trade flows that actually took place in that year. But trade with the industrial countries, particularly Japan and the U.S., would have been far higher.

Under the free-market scenario, the two economists estimate that East bloc exports to the U.S. would have been \$44 billion and U.S. exports to bloc nations would have hit \$50 billion in 1985—compared to the actual amounts of just \$1.7 billion and \$3.7 billion, respectively. What's more, Winters notes that such trade flows would enhance both sides' trade with other nations, as well.

While transforming East bloc economies into market systems "is clearly a game worth playing on both sides," says Winters, the U.S. in particular "has a lot to play for."

WHAT'S BEHIND A RASH OF MORTGAGE BURNINGS?

While the surge in mortgage refinancings this year has captured headlines, economist Michael Carliner of the National Association of Home Builders thinks another trend may be equally significant: a growing number of people who have opted to pay off their mortgages entirely.

Census Bureau surveys indicate that from 1985 to 1989, some 5% of home owners each year decided to pay off their mortgages so they could own the homes free and clear. That's more than the number refinancing their mortgages.

Carliner thinks the percentage of loans that have been paid off entirely has undoubtedly risen significantly in the past year. "With the average mortgage rate still around 10%," he says, "a lot of people with CDs that are earning under 4% have probably decided to liquidate their mortgages, particularly if the unamortized amount is small." In other words, someone paying 9% or 10% interest on \$20,000 in mortgage debt has a strong incentive to pay off the mortgage entirely if he or she has got a similar amount in cash sitting around earning only 4%.

Because this gambit sops up liquid assets, it may crimp immediate outlay on big-ticket items. But it will also allow households to spend a lot more of their incomes in the years ahead.

MINORITY HOUSEHOLDS HEAD FOR BIG GAINS IN THE 1990s

While total households will grow by 12.9%, or 11.9 million, from 1990 to 2000, minority households will grow a great deal faster. The *Numbers Newsletter* reports that black households will increase by 20.7%, five times faster than white households, bringing their black share of households up to 12%.

But the real growth in the 1990s is occurring among Hispanic households. Although they represented only 7% of all households in 1990, they are expected to increase by 48% and to account for one out of four households added during the decade. Since Hispanics live in larger-than-average families (3.83 persons compared with 3.17 overall), the newsletter points out that each additional Hispanic family unit implies "significant consumer spending."

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AFTER THE FIESTA, A HIGH-TECH HAVEN—MAYBE

To the people of Seville, the quiet that has descended on the site of this year's world's fair is unnerving. The six-month-long fiesta drew more than 16 million visitors to the capital of Andalusia. But Expo '92 ended on Oct. 12, and nearly all the 20,000 Spaniards who worked at the fair are now out of a job. Giant steel cranes are dismantling some of the 98 pavilions on the island of Cartuja in the middle of the Guadalquivir River. The question on everyone's mind: What now?

For most of this century, the rest of Spain saw Seville as a picturesque but sleepy backwater. The fair commemorated the 500th anniversary of Columbus' first voyage and the beginning of the city's long-ago golden age. In the 16th century, Seville grew rich as the main link between Spain and the Americas, but eventually it was eclipsed by other trading centers in other countries.

Expo '92 was part of a wider effort to put Seville back on the world map, giving it not only a new image but a new infrastructure. The fair alone cost \$2.2 billion to mount. In recent years, an additional \$8 billion was pumped into the

region by the socialist government of Prime Minister Felipe González, a former Seville labor lawyer. González has made a point of justifying the outlay as a "rectification of an historic imbalance" between northern Spain and the traditionally poor, rural south.

SPRUCE UP. "Look at the building across the street. It's just as I remember it 50 years ago," says 80-year-old José María Díaz Pardo as he leans out of his paint store to appreciate one of the hundreds of facades that were restored to spruce up the city for the fair. No question, Seville got a first-class cleanup: The government spent huge sums to build Spain's first high-speed railway (linking Seville to Madrid), new highways that crisscross Andalusia, several new bridges spanning the Guadalquivir, and a new airport. All of this was supposed

to help position Seville as a high-tech mecca for the 21st century.

But that future, Díaz Pardo says, is far from certain. "The economic situation is bad now, and we all want to live well and work little," he says. Still, while the fair's accounts are being tallied, Spanish officials and business represen-

tends to develop computer-voice technology in English, Spanish, and French. But selling other multinationals on Cartuja '93 has not been easy because of management's insistence that companies engage in R&D rather than manufacturing or sales. So, the vision of Seville as a kind of Andalusian hacienda of high tech is far from being realized.

Part of the reason may be that Seville remains a rather laid-back place. "We're not in a hurry. An R&D project like this can't be filled in six months," says Cristina García, chief of staff of Cartuja '93. "Silicon Valley remained a Hewlett-Packard project for many years. This is medium- to long-term." Cartuja officials

now say some 50 companies have submitted 70 R&D projects.

It's an eclectic list. Siemens will use its own Expo pavilion for a computer-research and training center. Tecnológica, a Madrid-based electronics maker, has signed up to do electronics R&D in the former South Korean pavilion.

Spain's Health Ministry will study health-care technology in the Red Cross pavilion. And Seville's provincial government will set up a new-technologies training center to prepare Sevillanos for jobs in the grand high-tech era Cartuja is supposed to usher in.

NEW AGE. Cartuja's boosters see their project as a way to change the world's view of Seville—as well as Sevillanos' view of themselves. "The typical Andalusian gentry, with his wild nights

and his estate run by an administrator, is now a thing of the past," says Luis Retamero, chairman of Controlban, a Spanish computer company that bought the Austrian pavilion. "I think Seville has recovered its sense of belonging not only to Spain, but to the rest of the world," adds Elías López-Sobá, the representative in Spain of Puerto Rico, whose government is setting up an R&D center at the former Expo site.

Even if they have no high-tech aspirations, most Sevillanos agree that their city has changed for the better. "Before, there used to be huge traffic jams, the San Bernardo bridge used to back up all



MANY EXPO '92 PAVILIONS ARE COMING DOWN

tatives are stumping for private investment in what seems an unlikely project for this part of Spain. A state-run corporation called Cartuja '93 is lining up domestic and foreign companies to turn the fairgrounds into a high-tech research-and-development center.

"This is the most ambitious development project in southern Europe," says Dámaso Quintana, regional manager for IBM, which so far is the largest corporate supporter of the project. IBM plans to turn its Expo '92 pavilion into a Language Technology Center and a management-training facility. The company in-



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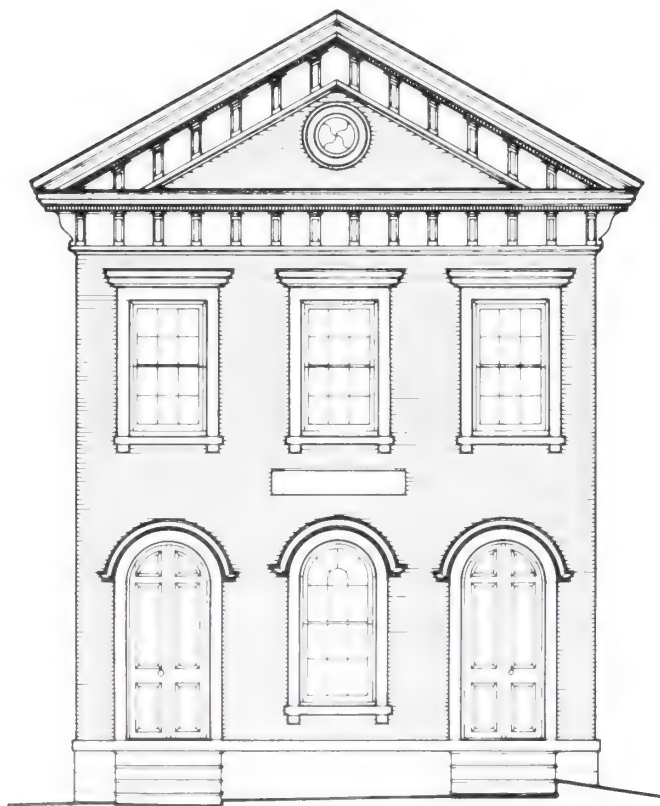


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the way, and it was a mess taking the bus to work," says toy-store sales clerk Lidia Sanchez. Now, she says, the new bridges have cut the traffic and shortened her commuting time.

"This town used to look uncared for, a bit seedy," says Jaime Conde, a University of Seville student. "The buildings and monuments have been cleaned up now, and it wouldn't have happened without the Expo." But the end of the fiesta has its downside. "Now that it's over, I doubt they'll do any more."

BRAIN POWER. Students at the university are counting on the changes continuing. The university is housed in the majestic 18th century buildings that were originally the Royal Tobacco factory, the setting for Bizet's *Carmen*.

Today, young men and women hurry through columned inner courtyards, past 12-foot-high doorways that still bear signs reading "machinist" and "wast chute." The students are quick to tell you that a large portion of the plans to change Seville—and in the process provide them with the jobs their studies ar

'We've tried to pattern this on the model of Boston and other U.S. cities,' says the rector of the university

preparing them for—germinated here.

Biologist Antonio Medina, rector of the university since last June, is one of a group of academics whose two-volume study on how to develop the region got the planners of Expo and Cartuja to adopt the idea of town-gown cooperation in advanced technology. "We've tried to pattern this on the model of Boston and other U.S. cities," Medina says. That's the dream.

But Medina readily admits that the reality is that Seville, even after the facade and all the investments, is not yet on the map for most big corporations. "Obviously, Seville is still on the periphery in Europe, nearly in North Africa," he says. Indeed, there's a certain skepticism among Sevillanos. José María Díaz Pardo, the paint-store owner, applauds the improvements in his hometown but questions whether the multinational firms that the planners hope to attract will really set up shop here—and if they do come, he wonders if they'll stay: "What if they all decide to go to Portugal instead?"

GARY ABRAMSON

Madrid-based Abramson reports for *BUSINESS WEEK* from all over Spain.

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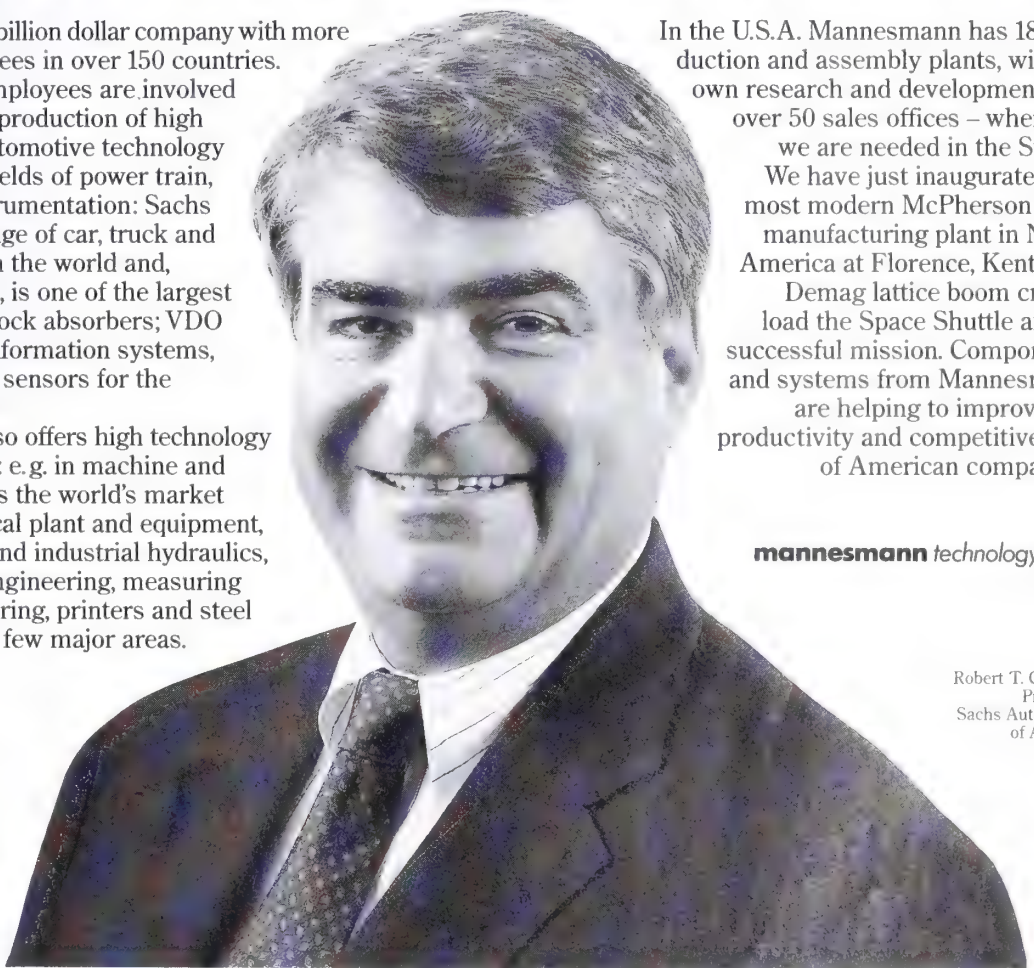
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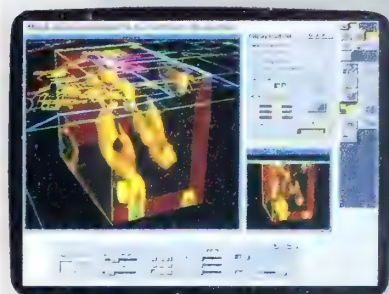
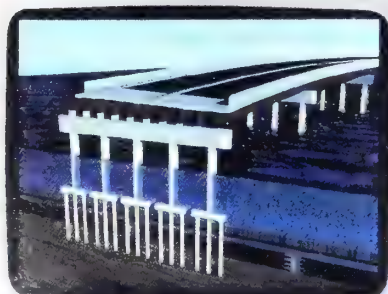
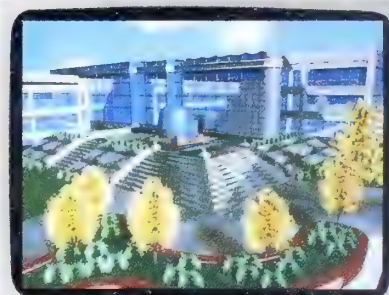
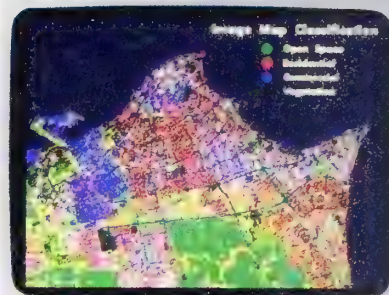
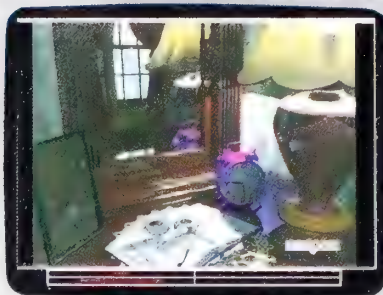
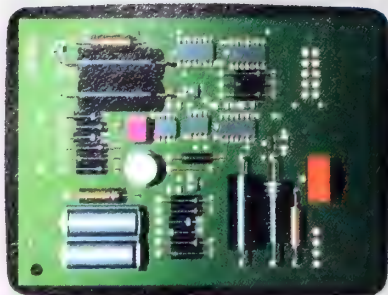
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CONSUMERS ARE MORE BULLISH, BUT WILL THEY SPEND MORE?

Here we go again. For the third time in two years, households are feeling better. The question is: Does it matter? After all, consumers can't spend confidence. They need cash.

Indeed, the yo-yo behavior of household attitudes has been a hallmark of this business cycle. Confidence plunged as the recession began in 1990. It surged when the gulf war ended in early 1991, only to double-dip later in the year as the recovery petered out. It jumped again when the economy strengthened earlier this year, and then triple-dipped this summer when growth was too slow to prevent the jobless rate from rising.

Through it all, the growth in consumer spending has been equally erratic and far below the pace necessary to lead a typical recovery. That's because two crucial determinants of spending—jobs and incomes—are also the most important factors in consumer confidence. And until those two speed up, not even cheerier consumers will be able to shift activity in manufacturing and homebuilding into a higher gear.

Consumer confidence rebounded in November. The Conference Board's index rose 11 points, to 65.5, following four straight declines (chart). However, the board cautioned that consumer spirits are "still at a level which is historically associated with a lackluster economy."

Moreover, the increased optimism might reflect wishful thinking more than hard economic reality. That's because nearly all of the November bounce stemmed from a surge in expectations for the economy's future, while consumers' assessment of their present situations rose only modestly. That result appears to be a vote of confidence for President-elect Clinton more than any real improvement in consumers' economic lot.

PUTTING A DATE ON THE RECESSION

The failure of payrolls and take-home pay to grow has rattled more than just consumers. It also has been the chief reason why the Business Cycle Dating Committee of the National Bureau of Economic Research has been unusually slow to sit down and decide on an official ending date for the recession that began in July, 1990.

The committee appears to be leaning toward a spring, 1991, date for the recovery's start. But the members will be hesitant to put that in writing until each of the four so-

called coincident indicators regains its pre-recession level. So far, two of the four—industrial production and real business sales—are within striking distance. But nonfarm payrolls and real income less transfer payments have barely grown since hitting bottom 1½ years ago.

In addition, the spring, 1991, date would conflict with the government's composite index of these four indicators. This index tracks the economy's current path, and as of September, it was still falling.

However, analysts close to the committee say that the coincident index may ultimately be revised up, because a statistical process called trend adjustment is exaggerating its downward tilt. So in the end it may well turn out that the economy has been in an official recovery for about a year and a half now.

HOUSING'S OUTLOOK: GOOD, BUT NOT GREAT

Given the way consumer confidence has waffled during that period, many households are likely to dispute that finding. And manufacturers and homebuilders might disagree as well.

Factory orders for durable goods did post a healthy gain in October, rising 3.9% (chart). That was the largest jump in more than a year, but it was not broad. Bookings in the transportation sector soared by 20%. Without that gain, orders would have fallen. In addition, unfilled orders edged lower for the 14th consecutive month.

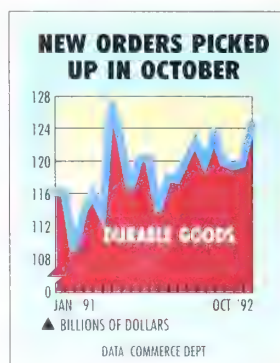
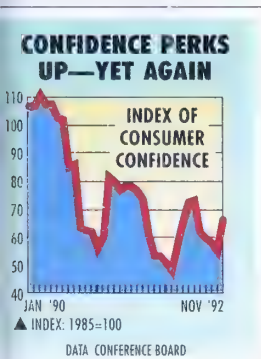
Further growth in new orders would signal that manufacturing finally may be gathering some momentum, but that will depend largely on how much those brighter consumer spirits lift spending.

Builders also are hoping that consumers will be more inclined to buy a new home. However, housing's lackluster prospects may lead to disappointment.

True, homebuilding is recovering. But housing starts are unlikely to top 1.3 million for any sustained period in 1993. Slow income growth and a scarcity of buildable land cloud the near-term outlook.

For the rest of the decade, starts should hover near a 1.4 million annual rate. That's down considerably from their 1.7 million showing during the 1970s and most of the 1980s. Demographics and the apartment glut will weigh down homebuilding for years to come.

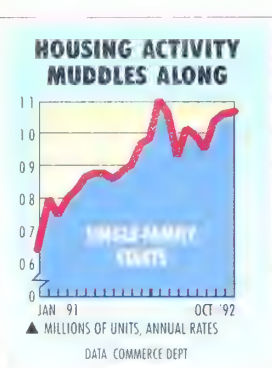
In October, housing starts slipped 1.1%, to an annual



Business Outlook

rate of 1.23 million, but all the damage was done in the overbuilt apartment sector. Multi-unit construction plunged 14.1% in October. Single-family starts—a better indicator of what's really happening in the housing market—edged up by 0.7%, to a 1.1 million rate (chart).

Perversely, housing may be getting a small lift from the recent uptick in mortgage rates. Consumers are probably rushing to buy now before rates rise even further. Mortgage applications to buy a home remained high in early November, while the rate on a 30-year mortgage hit 8.54%. The rate had fallen below 8% in September.



Even with low mortgage rates, though, affordability remains a problem for some families. The National Association of Realtors calculates that housing affordability for all U.S. households is at its highest level in 15 years, but first-time home buyers are still struggling. The NAR reports that in the third quarter, the average first-time buyer earned only 83.4% of the

income needed to purchase a cheaper starter home.

Although this rate is 10 percentage points higher than a year ago, the income disparity is a major reason why demand for new housing is not increasing very rapidly. The problem: Jobs and incomes aren't growing fast enough to outpace even the meager rise in home prices.

FEWER HOMES FOR BABY BUSTERS

In addition, builders are finding that land ready for construction is harder to come by. The U.S. Housing Markets newsletter reports that over the past two years, developers could not get bank loans to add sewers or roads to existing lots. So a scarcity of buildable land could put another crimp into starts in 1993.

Looking longer-term, the housing industry will be re-

strained by the smaller number of households being formed in this decade. After baby boomers formed new households at a torrid pace of 1.7 million a year in the 1970s and 1.3 million in the 1980s, the baby bust generation will head out on its own at an annual rate of just 1 million in the 1990s (chart). This low number of new households means that fewer new homes will be needed.

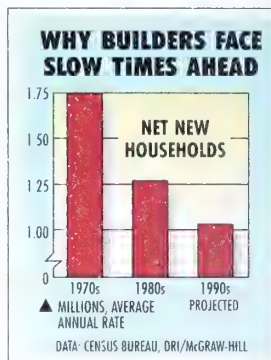
Also, the overhang of apartments built in the 1980s cuts the need for new multi-unit construction. Already in the 1990s, housing projects of five units or more are being constructed at an annual rate of 183,000, down sharply from their yearly clip of 440,000 in the late 1980s.

The steady decline in apartment construction suggests that the building industry, like many other sectors, is plagued by overcapacity. That means even more layoffs to come in the construction industry, which has already lost 600,000 jobs in the past three years.

Of course, builders aren't the only ones who have a stake in the outlook for housing. The housing industry also influences demand for big-ticket consumer items such as furniture, carpeting, and appliances. So the increases in single-family starts and mortgage applications suggest a rise in purchases of home goods this quarter.

In addition, the positive mood swing among consumers adds support to analysts' improved outlook for holiday shopping. The Conference Board says average household spending for Christmas gifts is expected to be 6.5% higher than a year ago. Also the Johnson Redbook Service has upped its expected gain in holiday sales from 6% to the 8%-to-9% range.

Keep in mind, however, that consumers outspent their incomes in the third quarter. If they do that again this quarter, early 1993 could be a real bust.



THE WEEK AHEAD

LEADING INDICATORS

Tuesday, Dec. 1, 8:30 a.m.

The government's composite index of leading indicators probably rose by 0.3% in October, say economists polled by McGraw-Hill Inc.'s MMS International. In both August and September, the leading indicators fell 0.3%. Fewer new jobless claims and a longer factory workweek may have turned the tide in October.

NAPM SURVEY

Tuesday, Dec. 1, 10 a.m.

The National Association of Purchasing Management's index of business activity probably increased to 52% in November, from 50.6% in October. The expected rise would indicate that the indus-

trial sector is expanding once again, after problems in the early fall.

CONSTRUCTION SPENDING

Tuesday, Dec. 1, 10 a.m.

Building outlays likely rose by 0.5% in October, on top of a 1.3% gain in September. Public-works spending probably led the October increase.

NEW SINGLE-FAMILY HOME SALES

Wednesday, Dec. 2, 10 a.m.

New homes sold at an annual rate of 622,000 in October, forecast the MMS economists. In September, 617,000 homes were sold. A small gain in single-family housing starts suggests that builders sold off some of their inventory of new homes in October.

FACTORY INVENTORIES

Thursday, Dec. 3, 10 a.m.

Manufacturing inventories likely grew a small 0.1% in October, after falling 0.3% in September. That's suggested by a pickup in factory output in the month.

EMPLOYMENT

Friday, Dec. 4, 8:30 a.m.

The MMS economists expect that nonfarm payrolls increased by an unimpressive 55,000 jobs in November. Employment increased 27,000 in October but dropped by a total of 181,000 in the preceding two months. Even the most optimistic forecast expects a gain of just 150,000. The unemployment rate is projected to stay at 7.4% in November.

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WESTINGHOUSE: MORE PAIN AHEAD

AFTER A HUGE ASSET SALE, WILL PAUL LEGO BE ABLE TO TURN THINGS AROUND?

Through the Pennsylvania autumn, Westinghouse Electric Corp. stock seemed to glide downward with the falling leaves. As it dropped, the pressure grew on Paul E. Lego to act. The Westinghouse chairman needed billions to keep the Pittsburgh giant afloat. But tapping the stock or bond market was out of the question: The company's bad credit ratings and festering financial portfolio scared away underwriters. Lego had drawn down the company's \$6 billion line of bank credit almost to the limit. Angry investors aired savage critiques in the press. By mid-November, the pressure was evident. In at least one meeting with investors, Lego was nearly in tears. "He got very emotional," says someone who was there.

Not long after, Lego finally made his move. On Nov. 21, he summoned the board to an emergency meeting in Washington. There, he pushed directors to approve the sale of a slew of company assets—everything from its gruesome real estate portfolio to the venerable Westinghouse Electric Supply Co., the last link to the refrigerators and ranges that made Westinghouse a household name. Recognizing that the sales wouldn't come at a profit, Lego called for a painful \$1.13 billion aftertax charge against fourth-quarter earnings. Meanwhile, to satisfy the clamor for management changes, three top executives walked out the door. Then, on Nov. 23, he announced to a roomful of stock analysts gathered at New York's Plaza Hotel that Westinghouse was back on track.

BUYING TIME. Not for long. Although his company's battered stock climbed back into double figures on Nov. 23, rising 2%, to 12%, it gave up 1% of that gain the following day as investors digested the import of the restructuring—and a 44% dividend cut. As the stock action suggests, Lego needs much more than one dose of pain and downsizing to turn Westinghouse around. He must make the hidebound conglomerate not only

smaller, but more nimble, turning a bureaucracy that has been likened to the Soviet Politburo into a hotbed of entrepreneurs. With his latest moves, says Ralph V. Whitworth, president of United Shareholders Assn., Lego and his team have only "bought themselves some time."

They're paying dearly for the respite.

Two daunting challenges: Raising enough money to pull the company back from the brink and refashioning it into a lean global competitor

Unloading the units now on the block would shrink the company by a third, from last year's \$12.8 billion in sales to \$8.6 billion. But selling in today's flaccid markets is easier said than done. In fact, many of the assets have been on sale for months, even years. Westinghouse was shopping its sick financial services arm, Westinghouse Credit Corp., to General Electric Capital Corp. a year ago. And Westinghouse Supply has been carrying a discreet For Sale sign since the late 1980s. By speeding up the selling, Lego is effectively lowering the prices. More may be on the block soon. "The less he gets for the [Westinghouse Credit] portfolio, the more of the company he has to sell," warns one analyst.

The current round of divestitures was clearly a wrenching decision for Lego. Until recently, he stoutly denied that the problems at Westinghouse Credit imperiled his diversification strategy. He attributed the crashing noises coming from Westinghouse Credit to regional

soft spots in the economy. Quarter by quarter, he took charges against Credit's losses, claiming that each one would be the last. "This is a company that has been dribbling out the bad news, making a practice out of rationalizing reality," says Joseph A. Grundfest, a former SEC commissioner now at Stanford University Law School.



Retired Westinghouse executives grouse about Lego's mismanagement and blame him for their withering pension portfolios. But in fact, the seeds of the decline were sown a decade ago, under the leadership of Douglas D. Danforth. As Westinghouse watched its Pittsburgh neighbor, Gulf Oil Corp., fall prey to raiders in 1984, they moved to defend themselves with high earnings and revalued stock. Fueling this growth was Westinghouse Credit, which grew unchecked through the 1980s.

CRUNCH TIME. Like a fast-buck savings and loan, Westinghouse Credit embarked on a footloose lending spree, becoming a lender of last resort. "We were approving loans at 110% of value," says one former employee. "It was crazy."

When the portfolio began to plummet in 1990, Lego's response was to

deny the depth of the problems. An engineer who prides himself on his mastery of numbers, Lego monitored the bad news from a computer in his executive office. Isolating himself with only a couple of intimate advisers, the Westinghouse chairman decided to tough it out, throwing lifelines from the parent company to Westinghouse Credit.

The generosity to the financial unit drew the parent company into its morass. By last summer, Westinghouse was facing a liquidity crunch. Credit agencies downgraded its debt, blocking it from commercial paper markets. Westinghouse's efforts to issue stock met with derision on Wall Street. With no other alternatives, Lego had to turn to the banks, which had extended a \$6 billion revolving line of credit last December. By Nov. 3, the credit line was down to its last \$500 million, with hun-

dreds of millions in debt coming due.

Suddenly, Lego was feeling the squeeze from both shareholders and banks. Since last winter, when Westinghouse awarded fat stock-option packages to top executives, shareholders had been loaded for bear. By summer, many were already drafting resolutions for the April, 1993, annual meeting. Then came October's board coup at General Motors Corp. The shareholder groups had more time to zero in on Westinghouse.

By the fall, their dissatisfaction had grown so vocal that Lego was spending much of his time flying around the country to meet with institutional investors. In late October, at a business conference in Texas, Lego found himself seated next to Dale M. Hanson, chief executive of the California Public Employees Retirement System (CalPERS). Hanson took the opportunity to press Lego for change. Lego outlined a reform plan that he expanded upon later at a Nov. 9 meeting with CalPERS officials. But participants complained that while he defended Westinghouse's diversification, his presentation was short on strategy.

In his meetings, Lego was promising action by yearend. Investors called for it sooner, and they raised questions about the quality of Westinghouse's docile board. Lego defended it. "We have Frank Carlucci," he said, referring to the former Defense Secretary. "Yes, but he's on 10 boards," one shareholder retorted, implying that the capable Carlucci was spreading himself thin. The meeting went downhill from there, recalls one shareholder. Finally, Lego let his emotions show, growing teary defending his company.

WOOLING BANKERS. The stockholders went away from the meetings more convinced than ever about the need for shareholder resolutions in the spring—and eager to force Lego's hand before then. They told Lego they wanted to meet some of the company's outside directors.

Lego was more concerned about money—he needed billions, fast. Without a quick cash infusion, he ran the risk of overstepping the tough covenants—controlling net worth and leverage ratio—established in the \$6 billion credit line. Breach of the covenants would effectively turn over control of the company to the banks.

With his fate tied to the banks, Lego turned to them for help. He put out feelers, says a source close to the banks, asking if they could spring for another \$2 billion or \$3 billion. The 49 banks, led by Chemical Banking Corp., turned him



Top of the News

down. Westinghouse then invited bankers to a Pittsburgh meeting.

Early on Nov. 16, Westinghouse finance officials gathered for the meeting. By midmorning, bankers from Deutsche Bank, Chemical, Banque Paribas, Barclays, and dozens more descended on the elegant William Penn Hotel in downtown Pittsburgh. Security was tight. Lego was nowhere to be seen. The Westinghouse executives were equipped with a paper outlining the talking points for one-on-one encounters with the bankers. But at the bottom of the memo was

he would have to take. Only then would he know how much he would have to sell to cover the losses.

Lego looked to the December meeting to push through his new program. But the market continued to pound on Westinghouse, driving it to single digits on Nov. 20. Lego called an emergency board meeting in Washington.

The board lived up to its reputation for passivity. Following Lego's cue, the directors accepted the proposed changes with little argument or discussion, says a company insider. Along with the

\$2.3 billion in underperforming loans That's more than many analysts think he'll get. He's in a hurry, and prospective buyers know it. Worse, he's competing with the Resolution Trust Corp.'s massive S&L sell-off. And even if Lego raises enough money through asset sales to pull Westinghouse back from the brink—and even optimists predict a close call—he must refashion what's left of the company into a lean global competitor.

That description doesn't fit now. Frustrated employees describe endless

streams of meetings with outside consultants, whose advice is rarely heeded. "It's what I imagine business was like in the '50s, sluggish and slow," says a former executive of Westinghouse's furniture group, Knoll International Inc.

Even with nimble globalists at the helm, Westinghouse core businesses hardly seem designed to thrive in the marketplace of the 1990s. At the heart of the company is nuclear energy. Public support of the U.S. atomic power industry has been slipping steadily

since the 1970s. The electronics unit, anchored in the Pentagon, faces a decade of shrinking contracts. No wonder Westinghouse officials so often sing the praises of Thermo King Corp., the company's profitable refrigerated truck unit.

For now, Lego has little time to spend on the core businesses. He'll be too busy disentangling the parent company from Westinghouse Credit. If he comes up short, he told analysts in New York, he may have to spin off the company's troubled TV and radio stations.

Assuming he gets through the next six months, Lego faces what is sure to be a contentious annual meeting in the spring. Shareholders will insist on reforms. For one, they want a nominating committee to find new, more active directors. And they'll push to separate the chairman from the chief executive post, taking away half of Lego's job. That means that if Lego's going to remake Westinghouse, chances are he won't be doing it alone.

By Stephen Baker in Pittsburgh, with Michael Schroeder in Washington and Judith H. Dobrzynski in New York



PAUL LEGO'S LEFTOVERS

	1991 sales	1992 sales*
	Millions of dollars	
ELECTRONIC SYSTEMS	\$3,250	\$2,900
Radar, traffic control, fire security systems		
POWER SYSTEMS	2,650	2,880
Nuclear- and fossil-fuel-powered generators		
ENVIRONMENT	1,190	1,220
Hazardous waste disposal		
BROADCAST	832	851
TV and 16 radio stations		
THERMO KING	650	653
Mobile refrigeration units		

*1992 estimate

SOURCE: COMPANY REPORTS

a directive urging them to steer "tough questions" to the members of the banking committee who weren't at the gathering.

Westinghouse officials assured the bankers that decisive action would be coming at the Dec. 2 board meeting. The sale of Westinghouse Credit assets would be speeded up. The dividend might be cut or eliminated. They pointed to continued profits at the company's core businesses of electric generation and electronic instruments. They outlined a worst-case cash-flow scenario, one which showed them keeping their nose above the limits of the covenants. The mood, says one banker at the talks, "was upbeat."

IN SUSPENSE. Cheering the bankers was news that Westinghouse had hired a host of investment banks to study the rapid sale and liquidation of Westinghouse Credit's holdings. Lehman Brothers, Babcock & Brown, and Goldman Sachs were all busy crunching valuations of the \$9 billion portfolio, chock-full of deserted hotels and defaulted T.O.U.s. They would tell Lego how big a hit

moves to sell big chunks of the company, they accepted the resignations of three senior executives. On Nov. 23, the company announced the departures as part of a big management reorganization. But in fact, says a source in the company, the three who left—Chief Council Robert F. Pugliese and Executive Vice-Presidents Theodore Stearn and George C. Dorman—all wanted out. That leaves Lego, who leans heavily on Executive Vice-President Anthony Masaro and his wife, Eileen, a vice-president, with his core team intact.

For now, Lego has forestalled his own ouster. But he's still in a tight spot. His plan hinges upon raising 37¢ on the dollar for the real estate portfolio, with its

'We were approving loans at 110% of value,' says one former Credit Corp. employee. 'It was crazy'



NOW, MARTIN MARIETTA WILL BE MAKING THE GE SATELLITES ITS ROCKETS OFTEN LAUNCH

THIS DEAL COULD SEND MARTIN MARIETTA INTO ORBIT

Buying GE's aerospace unit puts it in the top tier of defense contractors

The deal that created America's newest defense giant began at the clubby Homestead resort in Hot Springs, Va. When top chief executives gathered to golf and schmooze at a meeting of the Business Council in October, General Electric Co. Chairman Jack Welch approached an old friend, Martin Marietta Corp. Chairman Norman Augustine, with a stunning proposal: why not buy GE's aerospace division?

Intrigued, Augustine met Welch two weeks later to thrash out the transaction over dinner at GE's Fairfield (Conn.) headquarters. By Nov. 22, they had a deal that rocked the industry. In the biggest defense consolidation to date, the Bethesda (Md.) company will become the world's largest maker of defense electronics by buying GE's aerospace unit for \$3.05 billion, mostly in cash, stock, and assumed debt.

CATAPULTED. Giant GE sheds what was never more than a peripheral business, while Martin nearly doubles in size, to annual revenues of \$11 billion. Martin, until now mainly a supplier of weapons subsystems, will catapult into the top tier of military prime contractors. "It's

a remarkable combination," says Julian Scheer, senior vice-president of LTV Corp., which recently shed its missiles and aerospace unit. "It's as if General Motors bought the biggest rubber, glass, and steel companies." One difference from GM: Cost-conscious Martin Marietta is likely to stay lean and profitable. The markets loved the deal: Both companies' stocks jumped after the sale was announced on Nov. 23.

GE prefers businesses in which it can be No. 1 or No. 2. "While GE Aerospace is a world leader in technology," says Welch, it is "not of the scale to be unique in the changing global arena." Selling out to Martin also provided a graceful way out of a sagging business that generates 10% of its \$60 billion rev-

enues. GE will now be flush with cash—and well-positioned to acquire nondefense assets that troubled companies are eager to dump.

For Martin Marietta, too, the deal was strategic. It joins Loral Corp. and GM's Hughes Aircraft Co. in the small group of defense contractors that are defying the shift to a peacetime economy by expanding through acquisition (table). In contrast, GE and General Dynamics are dumping units, while McDonnell Douglas and Grumman are shrinking existing operations and may try to sell some. "In this business, everyone is looking at whether to combine or get out," says Loren B. Thompson, a national security specialist at Georgetown University.

Electronics—Martin Marietta's chosen focus—is the safest corner of a shrinking industry. Faced with buying fewer planes and ships, military planners are loading up existing weapons systems with the latest surveillance, command-and-control, and computer gear.

'JIGSAW PUZZLE.' GE's arsenal complements Martin's. GE is a major supplier to the Navy, while Martin's biggest customer is the Army. GE builds satellites, while Martin makes rockets; the new company could package them. GE supplies the radar that guides Martin Marietta-built missiles for the Aegis fleet air-defense system. "There's very little overlap," says a defense specialist close to the negotiations. "It's almost like two pieces of a jigsaw puzzle."

The two companies are similar, though, in ways that could help smooth the acquisition. Run by engineers, both have reputations for financial discipline. A shared corporate culture will help, since GE will become Martin's biggest investor: To clinch the deal, cash-short Martin had to offer \$1 billion in preferred stock, convertible into up to 23.5% of its common shares.

Martin faces some big challenges in making the deal work. It's assuming \$750 million of GE Aerospace debt, boosting debt from 27% of its total capitalization to 46%. And swallowing GE Aerospace will tax senior management.

Still, although defense budgets are shrinking, the Pentagon spends \$100 billion a year on research and procurement. "Weaker companies will shrink and sink," Augustine concedes. But, he adds: "there's room for strong survivors." He's betting \$3 billion that Martin Marietta will be one of them.

By Amy Borrus, with Tim Smart, in Washington

THE DEFENSE INDUSTRY REGROUPS

FEBRUARY, 1992

General Dynamics sells its profitable Cessna commercial jet business to Textron for \$600 million

MAY, 1992

General Motors' Hughes Aircraft agrees to spend \$450 million for General Dynamics' missile division. The move is aimed at Hughes rival Raytheon, maker of the Patriot

AUGUST, 1992

Loral and Carlyle Group, a Washington investment bank, outbid Martin Marietta with a \$475 million offer for the missile and aerospace units of bankrupt LTV

NOVEMBER, 1992

Martin Marietta agrees to pay \$3.05 billion for General Electric's aerospace division. The deal will make Martin the world's biggest defense electronics company

GATT IS ON ITS FEET— BUT FAR FROM STEADY

Bush's farm deal saved the talks. Now, they could get really sticky



PRESSURE: ONE PLAN WOULD OPEN 3% OF JAPAN'S PROTECTED RICE MARKET TO FOREIGNERS

The scene was more suggestive of French bedroom farce than high-stakes trade negotiation. Inside Blair House, the elegant mansion across Pennsylvania Avenue from the White House, men and women darted from room to room, up and down halls and stairways.

The officials weren't cavorting. They were racing to avert an agricultural trade war threatened by a Dec. 5 deadline for imposing 200% duties on imported white Burgundy wines. As they worked, each new proposal on farm subsidies had to be carried to another room to be crunched on a laptop computer while top negotiators from the European Community and the U.S. huddled separately with their economists and lawyers. So frenzied were the talks that they continued even as EC trade ambassador Frans Andriessen and Agriculture Commissioner Ray MacSharry shrugged into their coats for their dash to Dulles Airport and their Brussels headquarters.

But the next morning, Nov. 20, a deal on

gradual reductions in farm subsidies was finally consummated by a single telephone call from Andriessen to U.S. Trade Representative Carla A. Hills. President Bush hurried to the White House press room to announce that the 108-nation trade negotiations known as the Uruguay Round had suddenly sat up in bed—a year after most experts had pronounced it dead.

The reason for the haste: The Bush Administration wants to put its final imprint on a global deal before turning the White House over to Bill Clinton on Jan. 20. Bush reckons that the incoming Administration will have little time to do more than tinker with the Nov. 20 deal, since it must submit it to Congress by

Mar. 3. Europeans are mostly amenable to the fast pace, fearing that Clinton might strike a harder bargain.

Although the six-year-old trade talks have been revived, there's little evidence that Bush or anyone else can keep them on schedule. The accord between the EC and the U.S. has cleared a major stumbling block, but many other contentious and complex issues remain unresolved, from telecommunications to textiles to financial services. "Too many have been lulled into thinking that now that agriculture is done, it'll be clear sailing for the rest of the negotiations," warns Calman J. Cohen, vice president of the Emergency Committee for American Trade, an association of 60 U.S. exporters.

TOO FLEXIBLE? The farm compromise must still be approved by 95 other members of the General Agreement on Tariffs & Trade, the Geneva-based sponsoring body. Then all the GATT members will have to pick up where they left off last December, when the agriculture dispute derailed the process. To remind them of where they stood, they'll have a 400-page summary of the tentative compromises that had been reached by them compiled by GATT Director General Arthur Dunkel.

In coming months, angry agricultural interests may prove the least of GATT worries. For now, French farmers, who depend on massive EC subsidies, are protesting noisily (box). French Prime Minister Pierre Bérégovoy called the farm deal "unacceptable," and farmers stopped traffic in Paris with their tractors. Owners of more efficient American farms grouched that the EC committed only to a six-year, 20% cut in internal price supports, and a 21% cut in the volume of commodities receiving export subsidies. And U.S. soybean growers who triggered the crisis by complaining about European subsidies for oilseed griped that "we have been called on to be much more flexible than is fair."

But growers alone aren't likely to torpedo the talks. U.S. farmers actually gain more from the overall negotiation than they give up in the latest compromise. Another food-exporting nations were delighted. The Blair House pact "a historic step in bringing fair trade to agriculture," said Australian Prime Minister Paul Keating, leader of the 14-nation Cairns Group of food-exporting countries. And even if wanted to sabotage the talks, France would

STILL ON THE TABLE AT GATT

TELECOMMUNICATIONS The U.S. is seeking to gain access for U.S. equipment and services by breaking down government telecom monopolies worldwide

FINANCIAL SERVICES The U.S. and the EC seek easier access to Third World markets for insurance, accounting, consulting, construction, and banking

INTELLECTUAL PROPERTY RIGHTS U.S. software companies, drugmakers, and movie and television producers want protection against piracy

TEXTILES Third World producers want a fast phase-out of import quotas protecting the U.S. market. The U.S. industry is opposed

SEMICONDUCTORS U.S. chipmakers want to lower Europe's 14% tariff

find itself opposed by most of Europe, which is pushing for unity. The shaky European coalition has already been rocked by its failure to curb the fighting in Yugoslavia, by the instability of its exchange-rate system, and by the strain of persuading voters throughout the EC to approve the Maastricht Treaty for European union.

DRUG RELIEF. Even Japan, whose rice market is totally protected by strict quotas, may have to bend to international pressure. The worst that could happen under one GATT compromise under consideration: 3% of Japan's rice market would be thrown open to foreigners while the remaining market would be protected by a 700% tariff, phased down to 595% in 10 years. This "would present difficulties for Japan to accommodate,"

said Prime Minister Kiichi Miyazawa, though he did not rule out acceptance.

The money involved in farm disputes is piddling compared with some of the fights over services and manufactured goods. Not even industries within the U.S. agree. Take dumping. U.S. steel and auto makers want to retain strong protections against the below-cost sale of imports in the U.S. market. But U.S. exporters such as IBM, Caterpillar, and Sun Microsystems feel threatened by the growing use abroad of antidumping remedies. They worry that the draft compromise leaves in place too many rules favorable to Europe.

The U.S. pharmaceutical industry is divided, too. Antipiracy provisions of the GATT text would offer some relief from the rampant copying of drugs in India

and Brazil. But patent protections would be phased in over 10 years, and none would be granted for pharmaceuticals currently awaiting regulatory approval.

That some resolution of the Uruguay Round (so-called for the location of its first meeting) will eventually be reached is not much in doubt. The real question is how many of the most difficult disputes will be put on the back burner, to be dealt with another time in another massive trade negotiation. Already, telecommunications and maritime issues are sliding in this direction. As the trade diplomats push to meet the newest deadlines, the most troublesome remaining issues are likely to follow.

By Paul Magnusson in Washington, with Bill Javetski in Paris and Robert Neff in Tokyo

THE COUP DE GRACE FOR FRENCH FARMERS?

In gently rolling country south of Paris, Géraud de la Farge grows wheat and sunflowers on a 250-acre family farm. His land is productive, thanks to an irrigation system and new equipment that have put him \$160,000 in debt. But now he's worried—and angry. He says that cutting subsidies, as the pending world trade deal would require, could drive him off the land. "I'd give up farming, no question," says De La Farge, 35, as he heads to Paris for a national protest rally. "If this agreement goes through, it means revolution in France."

He may not be far wrong. France's farmers are incensed at the preliminary General Agreement on Tariffs & Trade accord. And they have support from Paris, where politicians face parliamentary elections in March. Virtually every party has come out against the European Community's "sellout" of French agriculture.

NEGATIVE INCOME. U.S. negotiators expected an outcry. No other issue pushes so many buttons in France, which industrialized relatively late and pines for its rural roots, explains Chairman Jacques Calvet of auto maker Peugeot. Some 25% of France's citizens lived on farms as recently as 1946. Now it's only 6%, but that's triple the U.S. level. And unlike the U.S., the family farm is still the norm: 80% of

French farms are under 125 acres.

Although small, France's farms have invested for efficiency. With the help of \$7.7 billion in annual European Community price supports, France is now the world's No. 2 food exporter after the U.S. In May, Paris reluctantly accepted production limits aimed at cutting EC payouts. Now, farmers see the GATT deal as the final blow. For oilseed

There is one big difference: French farmers are fighting back. During the past year they have dumped food on highways, burned sheep alive, and tried to blockade Paris with tractors. Last fall, such protests won \$250 million in state aid. After the GATT accord was announced, farmers trashed McDonald's restaurants, burned Coca-Cola vending machines, and promised a

massive Paris rally on Nov. 25—the day Parliament was to debate GATT.

HOT POTATO. France's Socialist rulers swear they'll lobby to renegotiate the pact. If that doesn't work, they'll pass this hot potato to the conservatives, who are sure to win in March. Yet Socialist President François Mitterrand, whose term runs to 1995, might have to choose between loyalty to Europe and the mythic tug of rural France. If Britain rejects the Maastricht



PROTESTORS BURN AN AMERICAN FLAG OUTSIDE THE U.S. EMBASSY IN PARIS

farmers it will double the \$200 revenue loss per acre caused by the EC cutback, says a farmers' association.

Growers say the GATT accord would accelerate the decline of the country's charming but marginal farms. In the Auvergne region of south-central France, ghost-villages stand where small farmers have given up competing with mechanized farms and moved to cities. It's the same rural exodus the U.S. lived through—decades later.

Treaty on EC union next spring, rural France could win.

French farmers will keep pressing. "For me, the GATT agreement is a catastrophe, I haven't slept for days," says Loire Valley farmer Jacques Siret, 44. He says he may have to quit farming. That would be tough—he has no other skill. He should learn one fast, for changes are afoot in France's charming, subsidized countryside.

By Stewart Toy in Paris



NO EASY ASSEMBLY: ABOUT 70 PLANS ARE UNDER REVIEW, BUT THORNY QUESTIONS REMAIN

SMART STEP FOR A WOBBLY GIANT

GM is trying to get suppliers to use its idle plants and workers

General Motors Corp. isn't known for trying far-out ideas. But that could soon change. Next year, component maker Android Industries Inc. is set to begin moving machinery into a GM parts factory near Flint, Mich. Android supervisors will take charge of 20 union workers at GM's Inland Fisher Guide Div. plant to show them how to assemble doors for a 1994 GM model. GM will continue to pay the workers' salaries and benefits, but Android will run its own corner of the factory.

When J. Ignacio Lopez de Arriortua took over as GM's purchasing czar last spring, he promised exactly this kind of creative strategy for repairing GM's inefficient parts business while keeping expensive union workers busy. Now, GM is evaluating about 70 proposals from suppliers, who have suggested everything from taking over idled GM factories and their work forces to sending laid-off GM workers to toil in supplier plants (table). "We plan to be very creative in how we do business," says Gerald L. Elson, general manager of Inland Fisher Guide.

GM has to be. The auto giant is bleeding badly: Analysts figure the company's 1992 free cash flow will run a negative \$2.5 billion. That's one reason why Moody's Investor Service Inc. on Nov. 24 downgraded most of GM's debt, including vital short-term borrowing by its financing arm.

GM says it is "taking extensive ac-

tions" to address the problems that sparked the downgrade, mostly by reducing costs. Parceling out idle factories and workers would help, if only a bit. But turning such concepts into contracts isn't easy. Few deals have been hammered out yet, and both sides face a myriad of new questions. Will GM offer suppliers the kind of multiyear purchasing contract that some need to justify buying new equipment? Or, if car sales perk up, might GM divert its workers to other jobs, stranding its new partners?

GM is under intense pressure to settle such questions and move ahead with reform. The company buys 57% of its parts, worth some \$30 billion, from its own divisions. Many are dragged down by cumbersome work traditions and payroll costs double those of outside suppliers. Chrysler Corp., by contrast, keeps costs down by making just 30% of its own parts.

GM must also make better use of its work force. Under the United Auto Workers contract, after GM employees are laid off

for 36 weeks, they receive full wages from a GM-funded Jobs Bank. Since October, 1990, the Jobs Bank has paid idled workers nearly \$1.7 billion. The fund will run dry in January, but GM still has to cough up part of workers' unemployment benefits, which are set at 95% of regular pay. GM finally caught on: As long as the workers are being paid, it only makes sense to give them work.

So, Lopez asked suppliers in July if they wanted to use GM's excess plants and workers. Executives at Breed Industries Inc. in Boonton, N.J., may be among those who like the idea. They toured three sites, including the empty Pontiac Fiero plant in Pontiac, Mich., union officials say. Breed, which needs a factory to build crash sensors for airbags, declined to comment. Another major supplier, which asked not to be identified, offered to take over a GM factory to make chassis components and to pay part of workers' salaries. GM has yet to respond, an executive says.

Parceling out partsmaking is a sensible move for GM. Take Lear Seating Corp. in Southfield, Mich., which over the past 18 months bought three seat factories from Volvo and from Saab, whose carmaking division is 50%-owned by GM. Lear promptly boosted productivity 41%, hiked output 81%, and reduced prices by 25%. Lear President Robert E. Rossiter says he would like to do a similar deal with GM in the U.S.

'STRANGLER.' Other suppliers are leery, however. Lopez has angered many by reopening long-term contracts, demanding 20% price cuts, and rebidding components that suppliers had spent millions of dollars developing. "The last thing [suppliers] want is to get deeper in bed" with GM, growls an executive at an Ohio parts maker. Other nonunion companies don't want UAW workers. GM purchasing officials asked Masco Industries Inc., for instance, to consider using an idle plant.

But "the labor issue really got everybody strangled," says L. Gene Stohler, vice-president for automotive marketing.

Still, the sense of impending crisis has spawned new creativity. There's even talk of exploring joint ventures with Japanese suppliers. It's a good sign that GM is looking for new answers—even if it means calling in an Android.

By David Woodruff in Detroit, with Zachary Schiller in Cleveland



HOW IT COULD TRANSFORM INEFFICIENCIES INTO PROFITS

- ▶ Move all full manufacturing plants to outside state parts suppliers
- ▶ Make GM workers available outside company for general manufacturing
- ▶ Sell nonessential GM plants, equipment, and/or tooling
- ▶ Hire part-timers just when needed with Japanese suppliers

THE CENTEL-SPRINT DEAL: IT'S HIGH ANXIETY

Publicly calm, Centel management is lobbying shareholders frantically

As Centel Corp. shareholders go, Robert L. Hutt is small fry. But that didn't stop the Chicago-based phone company from calling him up, lobbying the Woodbridge (N.J.) financial-services executive to vote his 100,000 shares in favor of Sprint Corp.'s roughly \$3 billion bid for Centel. Hutt's answer: No way. When the votes were tallied at a special meeting on Dec. 2, his will be counted against management. "It's a lousy deal that they're trying to shove down everybody's throat," Hutt complains.

That Centel would get such a rapturous reaction to its get-out-the-vote campaign suggests just how tough it will be to sew up this merger. Both Sprint Chairman William T. Esrey and Centel chairman John P. Frazee Jr. confidently predict victory in public, but Hutt's opinion suggests that high anxiety might be a more appropriate response.

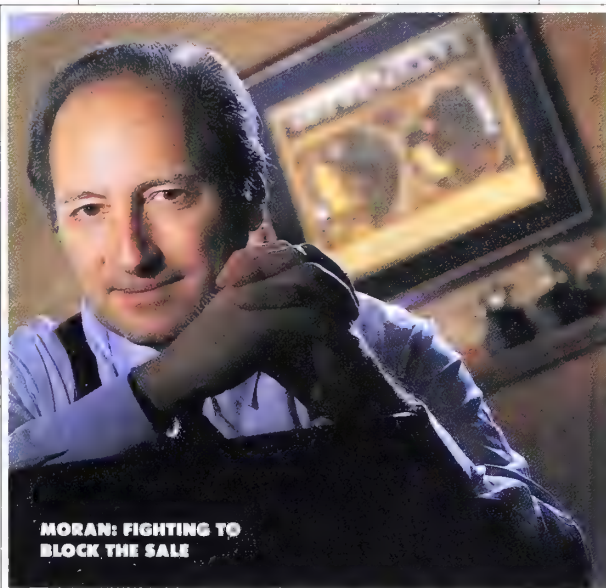
'SQUEAKER.' Indeed, despite efforts by Esrey and Frazee to court large institutional shareholders in person and on the phone, so far only one, Oppenheimer Capital, is publicly backing the plan. The rest either decline comment or say that they will vote no (table). The vote will be a squeaker," says Oppenheimer Co. sell-side analyst Michael Elling, who supports the deal.

Frazee had the right idea when he put Centel on the block, offering to sell it in whole or in parts, whichever would get the best price. But he made one big tactical error. He boasted in December, 1991, a month before putting Centel up for sale, that the company might be worth \$65 a share.

That projection, along with the announcement of the auction, ran the stock up from the low 30s to a high of 46. It was still trading at 42½ on May 27, when Sprint and Centel announced their tentative merger agreement. But instead of paying a premium, Sprint offered a stock swap—1.37 Sprint shares for each Centel share—that valued Centel shares ½ below the market price. Investors were shocked. The next day the stock plunged 10½, to 32.

Frazee acknowledges now that his 65-a-share valuation pumped up investors' expectations unrealistically high. "I

believed it at the time," Frazee says, noting that many Wall Street analysts were also quoting the same figure. "I can understand, though, why people might be irritated now." Although some investors hope that Sprint will sweeten its offer at the last minute, Esrey rules out that possibility.



MORAN: FIGHTING TO
BLOCK THE SALE

There's some logic to a Sprint-Centel merger. Sprint is the No. 3 long-distance player, while Centel has strong regional properties in cellular. Both provide local phone service. The combined company would be the only one in all three communications businesses—a selling point to customers. But Centel shareholders feel that Sprint is getting Centel too

cheaply, pointing out that American Telephone & Telegraph Co. is tentatively offering a 68% premium over the previous market price of McCaw Cellular Communications Inc. to take a one-third stake in the cellular kingpin. Frazee notes that Centel's rural properties are simply not as valuable as McCaw's, which are located in larger markets.

Maybe that's so. But not everyone believes that Frazee is a master negotiator: "If Centel went up for sale today, I think the price would be much higher," says Salvatore Muoio, an analyst at Gabelli & Co.

While Sprint shareholders also have to approve the merger, the big question is whether Centel holders will give their O. K. Because the deal requires a yes from a majority of all Centel shares, a low turnout could help send the measure to defeat.

That would be just fine with Moran Asset Management in Greenwich, Conn. The money management firm, with 500,000 Centel shares, has launched a proxy fight to combat the transaction. According to President Frederick A. Moran, Centel has been setting up as many roadblocks as possible. Centel wouldn't supply Moran with a shareholder list, for instance, saying it would mail out his proxy materials. And Centel at first said it would charge \$130,000 for the mailing, a figure it later sliced in half.

BEST HOPE. Moran also charges that many of his proxies are taking too long to reach investors and that, in some cases, the prestamped voting envelopes were omitted. "This whole process is really pathetic," he complains. "The democratic process is being totally subverted in this case." Moran has asked Centel to delay the balloting and has complained to the Securities & Exchange Commission. Frazee denies any impropriety.

Strangely, enough, Frazee's best hope to defeat Moran and others lined up against the deal may turn out to be Sprint shareholders. The recent rise in Sprint's share price, to nearly 26 from a midyear low of about 21, has made the proposed share swap more valuable to Centel holders. Moreover, many investors who focus on the communications business have stakes in both companies. Oppenheimer, for instance, is supporting the transaction largely because in addition to its Centel stake, it owns 12.3 million Sprint shares. The question that will be resolved on Dec. 2 is whether there are more Oppenheimers or more Huttts among Centel shareholders.

By Mark Lewyn in Washington and Lois Therrien in Chicago

AN EARLY LINE ON THE CENTEL VOTE

Sprint's purchase of Centel requires a yes vote of a majority of Centel shares. Abstentions count as nays. Here's how the top shareholders stand

Investor	Stake of shares Millions	Voting position
GABELLI FUNDS	5.0	No
OPPENHEIMER CAPITAL	4.6	Yes
AETNA LIFE & CASUALTY	3.4	NC*
EAGLE ASSET MANAGEMENT	2.6	No
CAPITAL GUARDIAN	2.4	NC*

*No comment

SOURCE: SECURITIES & EXCHANGE COMMISSION, BW

WHERE ARE ALL THE FEMALE B-SCHOOL PROFS?

A Wisconsin lawsuit points to tenure as a largely male privilege

Just as any professor might have been, Ceil M. Pillsbury was disappointed when, in 1989, she was denied tenure at the University of Wisconsin's business school. The accounting professor had won an award for outstanding teaching, and her research had been published in one of the top journals in her field.

Her chagrin turned to anger, though, and she immediately accused the school's tenure committee of sex discrimination. A group of senior faculty members denied the charge, claiming that her research wasn't up to snuff. They later justified their decision by bringing up a host of issues ranging from what she wore at a Christmas party to her taste in jokes. "I was a person who really believed in the system," Pillsbury says, "but now I'm viewed as a major troublemaker."

Is there a glass ceiling in the ivory tower? Only 8% of the tenured faculty at BUSINESS WEEK's Top 20 business schools are women (table), and at several prominent B-schools, including those at Dartmouth College and Washington University, not one woman is tenured. Says Diana R. Harrington, a professor at the University of Virginia's Darden School of Business: "The system is controlled by people who have been in the club for many years, mostly white men."

SERIOUS CHARGES. Some B-school deans, however, play down the charges, arguing that the supply of qualified women has long been limited, and that only in recent years have more come into the pipeline. "My sense is that there is a lot of opportunity for women right now," says Thomas F. Keller, dean of Duke University's Fuqua School of Business.

Nowhere has the issue risen to greater prominence than at the University of Virginia. In 1990, Virginia's Darden School failed to recommend Associate Professor Melissa H. Birch for tenure. She charged discrimination. Five months later, the university provost reversed the B-school's deci-

sion and later named a five-person committee of outsiders to study reports of sex bias on campus.

The panel, which issued a report in April, found what it called "a palpable lack of trust between female faculty and male faculty" at Darden and faulted John W. Rosenblum, the B-school's dean since 1983. It accused him of being unable or unwilling to address "the underlying issues that diversity is raising." Replies Rosenblum: "I'm not perfect as a manager, but I don't think that's a fair and accurate portrayal of the qualities I've brought to the job."

Since the fall semester be-

gan, Rosenblum has appointed a task force to help identify women qualified for senior appointments, required seminars on sexual harassment for faculty and named an ombudsman to handle future complaints. But Birch says Darden is only putting on "a good show." The new task force, of which she is a member, has met just once.

CHEAP SHOTS. The dispute at the University of Wisconsin at Milwaukee, meanwhile, remains unresolved. After being denied tenure, Pillsbury charged that she was discriminated against because of her gender and because she was pregnant. Her faculty colleagues, she believed, had given her every indication that she would become tenured. But Pillsbury alleges, their early enthusiasm began to fade after she announced that she was having a baby. Dean Eric Schenker maintains that Pillsbury didn't meet the school's standards for academic research.

To buttress its case against Pillsbury, however, the business school took potshots at her character. It is-

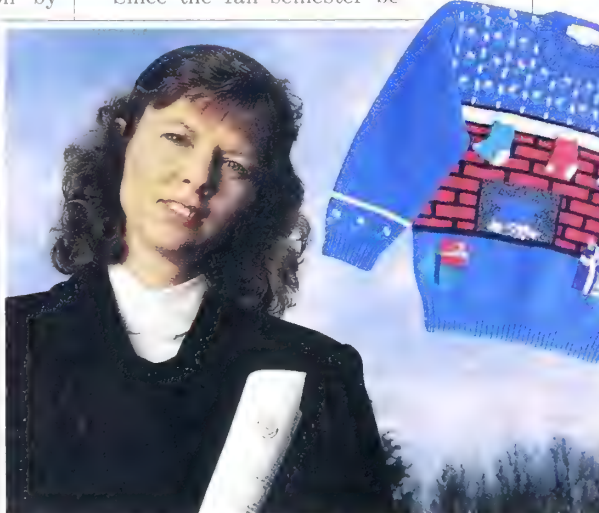
sued a report alleging that she had told colleagues off-color jokes and had attended a school Christmas party wearing "a sweater that had a small boot suspended from each breast." In fact, the novelty sweat-

er is decorated with three miniature Christmas stockings.

A university grievance panel found in Pillsbury's favor in 1990, ordering the B-school to reconsider its decision. The school refused to reopen her case, and Pillsbury filed a complaint with the Equal Employment Opportunity Commission. In August, the EEOC found a "discriminatory environment" at the school and urged that Pillsbury be given tenure. By then, Pillsbury had sued the university's board of regents for damages.

Even today, three years after the initial dispute, there are no tenured women at the Milwaukee B-school. The Labor Dept recently issued a report concluding that "a pattern and practice" of sex discrimination exists at the university's Milwaukee campus. But Pillsbury has some consolation. On Nov. 10, she was recommended for tenure at the school's Green Bay branch.

By Lori Bongiorno in New York



PILLSBURY: GIVEN THE BOOT FOR WEARING A SWEATER?

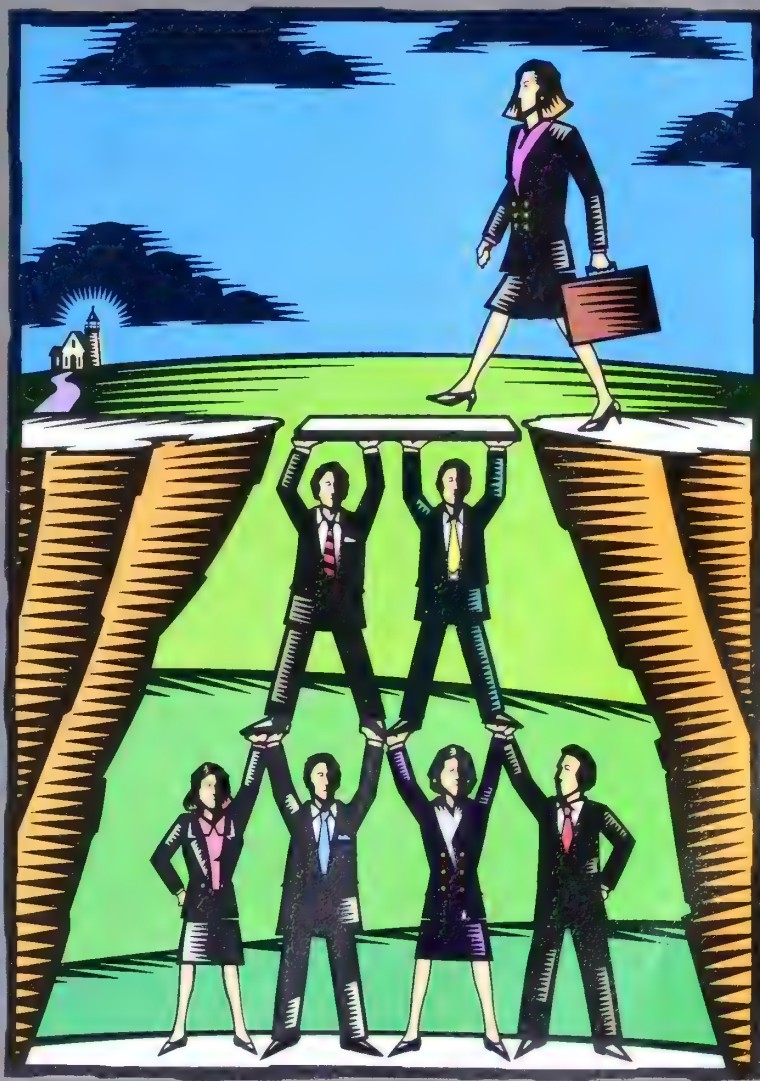
B-SCHOOLS: STILL A MALE DOMAIN

Just 8% of the tenured faculty at BW's list of top 20 business schools are women. Here are the schools with the highest and lowest percentage of tenured women:

School	Total tenured and tenure-track faculty	Percent of women	
		Tenure	Tenure-track
THE MOST...			
NORTH CAROLINA	66	14%	10%
BERKELEY	66	12	25
NORTHWESTERN	105	12	19
...AND THE LEAST			
STANFORD	76	4	15
WASHINGTON UNIVERSITY	41	0	19
DARTMOUTH	29	0	17

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DELL TRIES TO PUT OUT THE FIRE

The computer maker denies that it improperly boosted earnings

Investors don't hear much negative comment about Dell Computer Corp. So Kidder, Peabody & Co. analyst David R. Korus caused a stir on Nov. 20 when he suggested in a conference call with investors and brokers that Dell may have used foreign-currency speculation to buttress its earnings. The day before the call, Dell stock surged on the news that profits and sales for the quarter ended Nov. 1 had more than doubled from a year ago, to \$28.6 million earned on sales of \$570 million. After the call, Dell stock began dropping, falling five

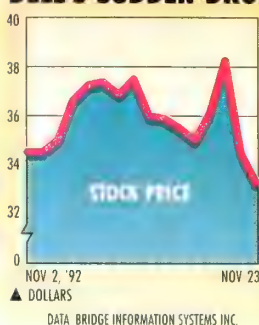
points in two trading days (chart).

Dell Chief Executive Officer Michael S. Dell responded quickly. On Nov. 20, he denied any improprieties in the company's currency trading. Dell's law firm warned Kidder and Korus they faced legal action and alerted the Securities & Exchange Commission to Kidder's "false allegations." Dell also asked

the SEC to investigate the stock's movement, noting that shares were losing value even before the conference call.

QUESTIONS. Korus, who declined to comment, said in his conference call that he had been concerned for months about Dell's foreign-exchange trades. In August, Dell reported that, based on option contracts outstanding on Aug. 2, it was facing a \$38 million currency-trading

DELL'S SUDDEN DROP



loss. It said in March that it had \$435 million in foreign contracts outstanding.

Korus began asking questions. Were some of the currency trades profitable? If so, did Dell account for the profits properly? He worried that if Dell had to change its accounting, the restatement could wipe out its rosy gains.

"There is no danger of a restatement," says a

Dell news release. That was enough for some analysts. Dell, says James Poyner of Rauscher Pierce Refsnes Inc., "has gone to great lengths in the last two days to come out with an unequivocal rebuttal." But that hasn't stopped some investors from asking the same questions raised by Korus.

By Catherine Arnst in New York and Stephanie Anderson Forest in Dallas

BOYCOTTS

BASHING GAYS —AND BUSINESS

Colorado's Amendment 2 has triggered a painful boycott

William Buckingham, president of Xchange Inc., was packed and set to move his software-distribution company to Fort Collins, Colo. Then, Colorado voters on Nov. 3 approved Amendment 2, making it illegal to pass legislation protecting homosexuals from discrimination and overturning such laws in Denver, Aspen, and Boulder. On Nov. 23, Buckingham said that his \$5 million company will stay in San Francisco. Says Buckingham: "I view it as a backward step in a state I had thought was progressive."

Opponents of Amendment 2 warned that passing it would give Colorado a bad name. But few had predicted a backlash against state businesses. Now, Coloradans are questioning exactly how costly the measure will be. In an effort to roll back Amendment 2, an ad hoc, Denver-based group called Boycott Colorado is trying to persuade businesses and consumers to avoid the state. It's aiming at companies such as 3M Co., which has been considering an expansion site in Colorado

Springs. 3M says it won't comment until it receives the group's request.

Even without such prodding, some groups are pulling their conventions out of Colorado. Among those canceling so far are the American Association of Law Libraries, which was expected to attract 5,000 to its meeting in Denver in 1998, and the Coalition of Labor Union Women, which was scheduled to bring 1,500 to Denver next year. "We lost one financial group. That's \$20,000 worth of business," says Matthew Kryjak, manager of Loews Giorgio Hotel in Denver.

DAMAGE CONTROL. It doesn't help that Amendment 2 was passed at the start of ski season. About 2,000 tourists already have called the Denver Metro Convention & Visitors Bureau with questions about Amendment 2, and some are canceling ski vacations.

Resorts hope to contain the damage by publicizing their tolerance. Vail's town council says it may pass an antidiscrimination law in defiance of the

amendment. Aspen leaders have raised \$50,000 or more for newspaper ads that tell skiers that the city banned discrimination against gays in 1977 and opposed Amendment 2. Aspen Skiing Co. is hosting a Thanksgiving weekend ski-a-thon to raise as much as \$200,000 for AIDS research. And the resort's Gay Ski Week is still set for January.

Other Colorado companies also hope to blunt the boycott by making their point of view known. Denver-based Quark Inc., which makes desktop-publishing software, says it will deal only with suppliers and banks that have non-discrimination policies. "You can't pick on people and expect to get away with it," says Quark Chairman Timothy E. Gill, who personally donated \$40,000 to defeat Amendment 2. Quark and its employees have given an additional \$75,000 in cash, equipment, and software to the fight against AIDS.

Amendment 2 is being fought in federal court by Denver, Aspen, Boulder, and several private citizens, including Aspen resident Martina Navratilova, the lesbian tennis star. They charge that it violates the equal-protection clause of the U.S. Constitution. If that tack doesn't work, they'll seek repeal of Amendment 2. But voters won't have a chance to do that for at least a year. Until then, the boycott will stick, and Colorado's cold winter could last well past spring.

By Sandra D. Atchison in Denver, with Karen Thurston in Atlanta



BUCKINGHAM: CANCELING HIS COMPANY'S MOVE TO FORT COLLINS

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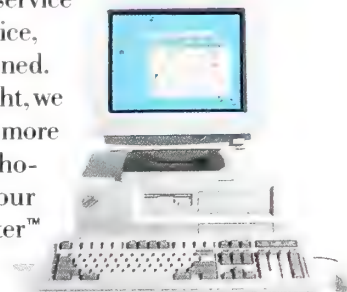
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Processor	386 SLC [™] /25 MHz	486 SX/25 MHz (Upgradable)	486 DX/33 MHz (Upgradable)
Monitor	PS/2 [®] 8511-VGA ^{††}	PS/ValuePoint 6312-SVGA	PS/ValuePoint 6312-SVGA
Memory/Storage	2MB RAM 80MB HD	8MB RAM 80MB HD	8MB RAM 120MB HD
Pre-installed Operating System	DOS 5.0	OS/2 [®] 2.0	OS/2 2.0
Price ^{†††}	\$1,299	\$1,629	\$1,999

^{††}325T is SVGA-capable. ^{†††}IBM prices, dealer prices may vary

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Model 433 DX[†]

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Model 325T



In Business This Week

EDITED BY HARRIS COLLINGWOOD

STATEHOUSE SALARIES

Bill Clinton didn't just win an election, he won a nice raise. As Arkansas chief executive, he was the lowest-paid governor in the land. He'll do a lot better as President, pulling down \$200,000 a year, plus Air Force One and various other perks. Here are the states that pay their governors the most—and the least

State	Salary
HIGHEST	
New York	\$130,000
North Carolina	123,000
Maryland	120,000
California	114,286
Washington	112,000
LOWEST	
Rhode Island	69,900
North Dakota	67,800
Nebraska	65,000
Montana	54,254
Arkansas	35,000

DATA: COUNCIL OF STATE GOVERNMENTS

DAZZLING SPEED AT KKR

► Kohlberg Kravis Roberts is turning around a leveraged buyout in record time. On Sept. 30, KKR bought American Re-Insurance from Aetna Life & Casualty for \$10 a share. Then, on Nov. 24, KKR outlined plans to sell about 25% of the reinsurer, raising some \$300 million.

If American Re fetches the \$28 a share KKR is seeking, the firm would be left, after dilution, with a 63.8% stake that soared 180%. In 55 days.

BOEING IS FLYING EVEN LOWER

► Not even an \$88 billion backlog can cushion Boeing from the blows of a deep re-

cession in the airline industry. Although it has had few outright cancellations, repeated requests by customers to defer deliveries have forced Boeing to announce production cutbacks for the third time this year. By November, 1993, the company says, it will reduce production of its model 757 jets from 8.5 per month to 5. It plans to cut 767 production from 5 a month to 4. That means Boeing will have to eliminate about 2,500 jobs from its work force of 144,000.

THE BIG SIX TAKE ANOTHER HUGE HIT

► The government has nailed another accounting firm in its hunt for culprits in the savings and loan crisis. On Nov. 23, Ernst & Young agreed to pay a record \$400 million to settle potential charges that it conducted faulty audits of thrifts that were later seized by the government.

The settlement, in which the giant accounting firm did not admit wrongdoing, resolved all claims by three regulatory agencies against Ernst, stemming from its audits of roughly 300 institutions that ultimately failed in the '80s. The settlement marks the latest in a series of hefty payouts by large accounting firms to resolve disputes over their audit work during the 1980s. In the past

CELLU-LAW PHONE

You probably know the feeling. There you are, tooling along the highway in your execu-mobile (equipped with cellular phone, natch), when you're seized with a sudden desire to learn just what federal tax law has to say about capital-gains distributions from oil-drilling master limited partnerships formed on or before Dec. 31, 1985. O.K., so maybe you just want to know whether you can pay off your parking tickets by check.

In either case, if the highway you're cruising down is in Chicago, central Illinois, or northwestern Indiana, you can dial *LAW on your mobile phone and get your answer via the new legal-information line from Cellular One, a cellular-service provider. The cost: \$25 per call (eat your heart out, Alan Dershowitz), plus regular airtime charges. But now that we can dial up legal advice along with sports scores, stock quotes, and jokes, what's next? How about a hotline for lawyer jokes?

two years, Big Six firms have paid \$1 billion to settle or defend government and private claims.

CHRYSLER EXECS RAKE IT IN

► Chrysler may be on the comeback trail, but while its stock is riding high, the car-maker's honchos are cashing in. Ten of the company's top executives in late October exercised stock options for just over 601,000 shares of Chrysler stock. They then sold the stock, pocketing a total of \$7.3 million.

The biggest gainer was

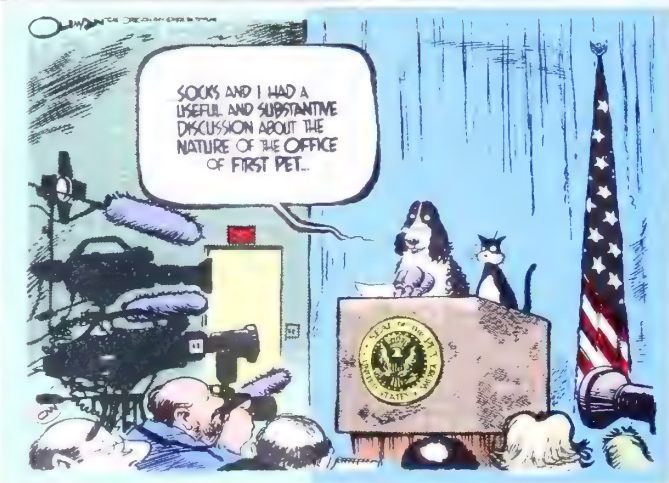


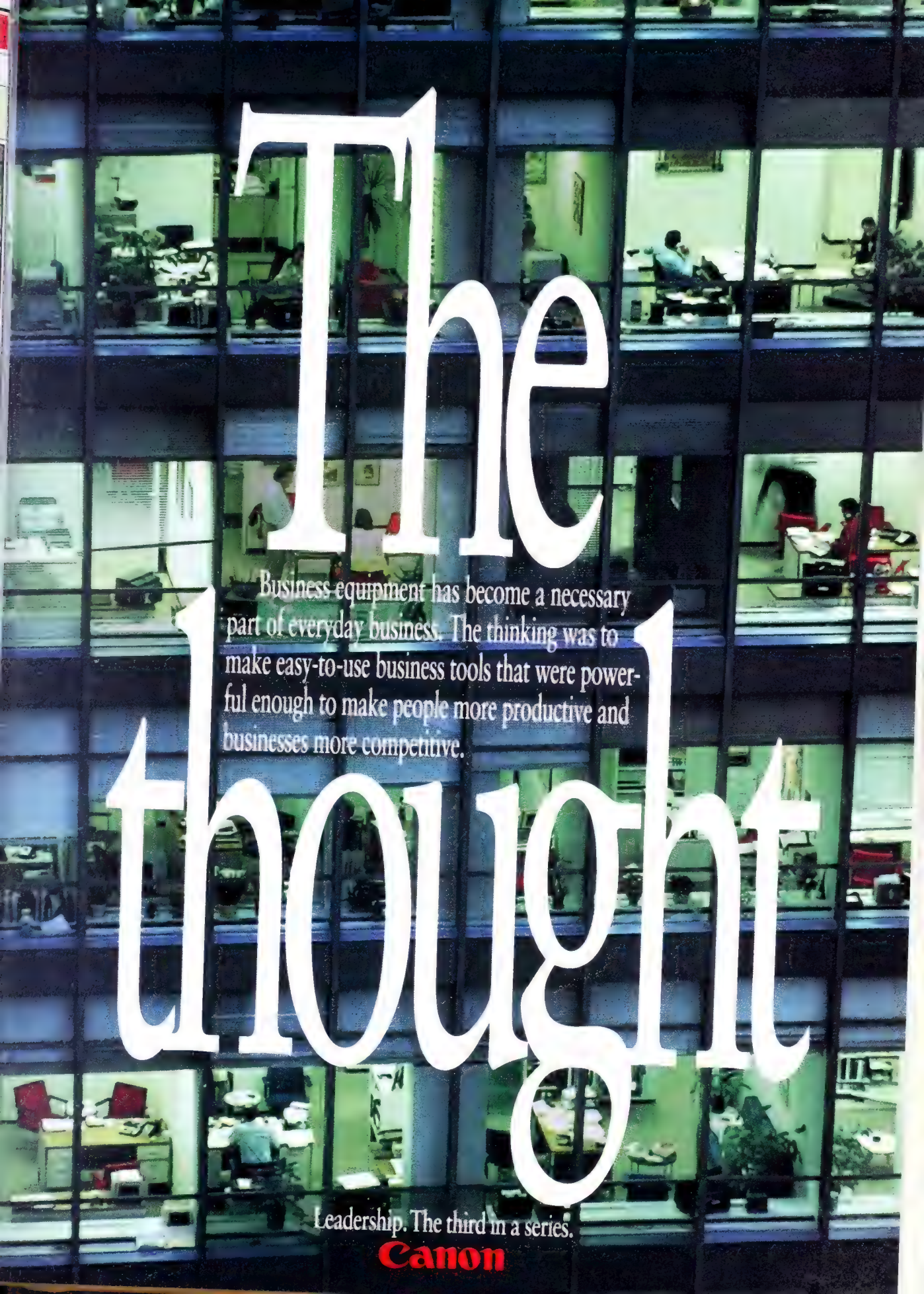
Chairman Lee Iacocca, who retires at yearend. He cashed in 200,000 shares for a \$2.85 million profit. President Robert Lutz sold 167,733 shares for a gain of \$1.97 million. And Chief Financial Officer Jerome York made \$992,300 by selling 94,700 shares. Chrysler says the executives sold for personal reasons. Because the sales came through newly granted options, none of the executives significantly pared his Chrysler holdings.

IS THE SOFTWARE PRICE WAR SPREADING?

► The U.S. software price war may be spreading to Europe. European-language programs usually command a 20% or so premium over English-language versions. But when Lotus recently lowered its prices in Europe, Wall Street began worrying that the premium would vanish.

Those concerns caused one analyst on Nov. 23 to trim his 1993 earnings estimates for Microsoft. The company's stock promptly dove 6½, to 88½, before rebounding to 91½ on Nov. 24. In a statement, Microsoft said that it is studying Lotus' pricing moves in Europe but hasn't made plans to respond.





The 1 thought

Business equipment has become a necessary part of everyday business. The thinking was to make easy-to-use business tools that were powerful enough to make people more productive and businesses more competitive.

Leadership. The third in a series.

Canon

The execution was innovative

We started by researching the productivity needs of the business community. The results were innovative technologies which fulfilled these needs. Our efforts were focused on improvements to existing business products, and then progressed to our creating entirely new product categories as well. This is why today Canon is the number one business choice for copiers, color copiers and plain paper facsimiles.

One of the earliest problems our research and development engineers tackled was the need for businesses to have better looking copies. As a company with a long history of expertise in optics,

it came as no surprise that our research team developed new ways to insure unsurpassed copy quality. The New

The Canon FAX-L770 is demonstrating the innovative spirit from Canon. A plain paper fax with superior imaging technology for unattended text and graphic reproduction and higher volume production.

Process NP system, which incorporated our Toner Protection Development System, was one of the first steps in creating our innovative NP line of copiers to provide crisp, clear copies. But we quickly realized that copy quality was only one part of the improvements businesses needed. The next goal was to insure that our high-volume copying systems were reliable, efficient and easy to use, too. A goal that has been perfected in The Corporate Line of high-volume NP Copiers from Canon.

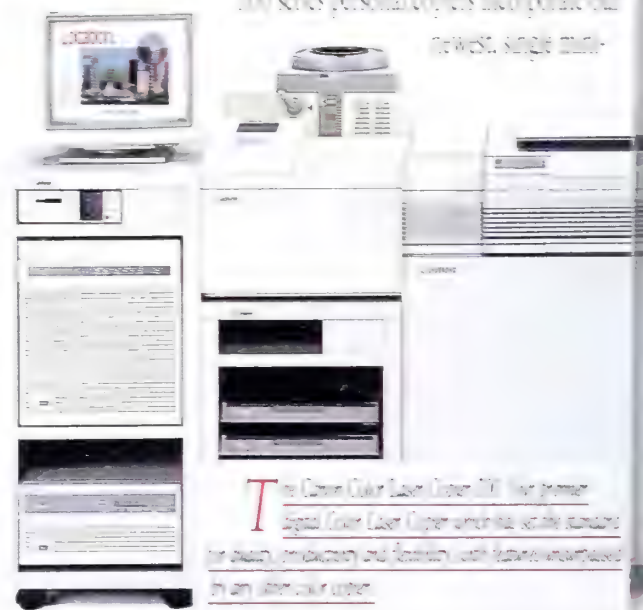
To insure The Corporate Line copiers stay up and running, we utilize our patented Advanced Sustain Drum. This Canon innovation can last up to ten times as long as conventional copier drums based on copy volume. And since productivity is the bottom line, the Corporate Line also has incorporated the largest paper capacity in the industry, so users will spend less time at the copier and more time working. You can find all these innovative features in The Corporate Line copying systems, featuring the NP 6000 and the NP 8500. It's breakthrough technology which have helped make Canon copiers the number one choice for over ten years.

Our engineers didn't stop with just improving high-volume copying systems; they also improved our best selling line of personal copiers. For years Canon

The Canon PC 330 personal copier. The PC 330 is the PC 300L for copying up to legal-size documents. Our most advanced single-cartridge system, requires no warm-up time and can even turn itself off when it's idle.

recognized the growing number of people working in their home offices or small businesses. These people had very unique needs. They needed high-quality, low-volume copiers that were extremely reliable, easy to use and compact in size. The breakthrough invention was the patented Canon single-cartridge system. In this system, our engineers found a way to put everything that could run out or wear out — the inner developer unit and copier drum — in one easy-to-replace cartridge. This single innovation made Canon personal copiers virtually maintenance free, since changing a cartridge practically gives you a brand new copier. But of course, we just couldn't leave well enough alone. Our latest

330 series personal copiers incorporate our newest single multi-



The Canon Color Laser Copier 330. Your premier digital color laser copier which has set the standard for clarity, productivity and flexibility with features unsurpassed by any other color copier.



The NP 6060 is the latest addition to The Corporate Line of reliable, high-productivity copying systems. Its unmatched paper capacity gives it the power to produce more copies than any other copier in its class, so you don't have to interrupt large copying projects.

tridge that's approximately 25 percent smaller and makes more high-quality copies. It's the reason our PC 300 series line of personal copiers are smaller and lighter than ever before. And the reason why Canon personal copiers will continue to be the number one brand for years to come.

With the growing popularity of facsimile machines in businesses across the country, came also the desire to send and receive better looking faxes. So Canon engineers set their sights on raising the standards for faxes, too. Our R&D experts looked at various innovations

from other Canon products to see if these technologies could be applied to new fax products.

Combining unrelated breakthroughs, such as the replaceable cartridge system from our personal copiers, and laser beam printing from our desktop printers, we created the foundation for our Laser

Class plain paper facsimiles. We also invented the Canon UHQ fax imaging technology, which markedly improved image transmission, assuring that graphics, text and photos are sent with more depth and clarity than ever before. What's more, our Hyper-Smoothing

enhances your incoming faxes, so even poor quality images are improved. All of these features can be found in our latest Canon FAX-L775. It produces among the highest fax image res-

olutions possible on cut-sheet plain paper.

The FAX-L775, just another reason why Canon Fax machines have been the number one selling plain paper facsimiles for three years running.

When Canon engineers dedicated themselves to bringing high-quality color to business, color copying was relatively primitive. Canon Color Laser Copiers brought color copying into the next century, by producing full-color copies with picture-like clarity and crisp, black text. What's more, they used our Digital Image Processing System to give users the ability to manipulate images. And options were developed which can connect both the Color Laser Copier 300 and 500 to virtually any color imaging source from computers to video. Canon Color Laser Copiers immediately became the number one industry choice, and they remain the standard by which all other color copiers are judged.

Canon's technological leadership. It started with a thought and turned into products that became the market leaders. We call these the products of enlightened thinking. After trying them, you'll see why Canon is the number one source for office automation. For more information call 1-800-OK-CANON (For personal copiers 1-800-4321-HOP).

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TRUST-BUSTING ISN'T ON BILL CLINTON'S SHORT LIST

Business has lots to worry about as Bill Clinton prepares to storm Washington. But here's a cheery bulletin: The Clintonites show little inclination for a trust-busting crusade. Odds are, the new Democratic antitrusters at the Justice Dept. will be friendlier than business expects.

The reason, in a word: competitiveness. "Clinton is more likely to welcome cooperative activity among businesses," says Thomas M. Jorde, a University of California at Berkeley law professor who has advised the Clinton team on antitrust. "He won't see every consortium as a scheme to fix prices."

Clinton knows the world has changed in the 12 years since Jimmy Carter's ardent antitrusters left government. In the globalized economy, bigness often means not badness but survival. And many of Clinton's economic advisers openly admire Japanese and European industrial combines. "Integrating antitrust and international competitiveness will be the trick over the next 10 years," says Robert Pitofsky, a Georgetown University law professor and key Clinton antitrust adviser. "Market forces are pressing regulators to think globally."

GREEN LIGHT? Clinton's appointments will signal his policies. Contenders to head the Justice Dept.'s Antitrust Div. include Pitofsky; New York University law professor Eleanor M. Fox; Robert M. Langer, a Connecticut assistant attorney general; and Stephen M. Axinn, a New York attorney with Skadden, Arps, Slate, Meagher & Flom. None are antitrust zealots.

But the New Democrats won't merely accept Republican laissez-faire. "There's no overall assumption that business can do no wrong," says NYU's Fox. One likely target for stepped-up enforcement: cozy arrangements among suppliers, manufacturers, and distributors. Republican antitrusters usually left attacks on such "vertical restraints" to private lawsuits and

the states. Connecticut antitrust cop Langer, for example, helped lead a 50-state suit against Mitsubishi Corp. for setting television retail prices with its distributors and launched a similar multistate suit against Nintendo Co. in 1991. Both companies settled without admitting wrongdoing.

Democratic trustbusters also are likely to take a harder look at mergers and price agreements that could drive up costs to consumers. Reagan and Bush officials rarely challenged mergers and instead attacked local bid-rigging by highway contractors, trash haulers, and school milk suppliers. The Dems will probably pursue national conspiracies, leaving local ones to the states. Clintonites may give the green light to mergers that aid global competitiveness, but they will first make companies prove that a proposed merger doesn't violate laws. Under Reagan, mergers were routinely approved unless challengers could show that they hurt competition.

DISAPPOINTMENTS. Some skeptics doubt that this new thinking runs deep. Former Reagan antitrust Charles F. Rule suspects that the Democrats' populist instincts may overwhelm their competitiveness concerns. He fears only a handful of high-profile mergers might get approval for global reasons. "That will do significant harm to the ability of American companies to compete," he says. Indeed, Clinton is being

urged by party liberals to be tough. Edward O. Correia, former chief counsel for Ohio Democrat Howard M. Metzenbaum's Senate antitrust subcommittee, worries that overzealous support for business will chill competition and raise prices.

But the liberals are likely to be disappointed. A global perspective seems deeply ingrained in the Clintonites' thinking. And for business, always ready to expect the worst from Democrats, that's hopeful news.

By Catherine Yang



FOX FOR JUSTICE'S ANTITRUST DIV.?

CAPITAL WRAPUP

HIGH TECHNOLOGY

In their fondness for industrial policy, Clintonites often point to the chip-making consortium Sematech as a model of government-private sector cooperation. The Defense Advanced Research Projects Agency, which funds Sematech, thinks that while the consortium may have helped the comeback of the U.S. semiconductor industry, it hasn't been very efficient. The problem: enormous capital investment in research labs and a pilot factory, which one Pentagon official describes as "a tremendous drain." DARPA officials believe that future consortiums, such as one now being set up to develop manufactur-

ing of flat-panel computer displays, should focus on investing in existing facilities rather than building new ones.

THE FED

Federal Reserve officials expect to get along fine with the new White House. But they're worried about some of Bill Clinton's congressional allies, especially House Banking Committee Chairman Henry B. Gonzalez. The Texas Democrat has stepped up his anti-Fed rhetoric. He also has introduced a bill ordering videotaping of the central bank's policymaking meetings and requiring that the President, rather than the Fed system, appoint the heads of regional Fed banks.

TAXES

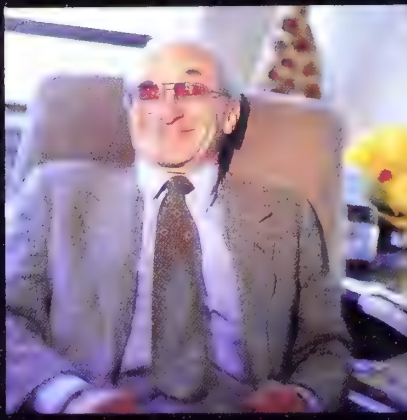
Business doesn't seem to have much faith in Clinton—at least when it comes to taxes.

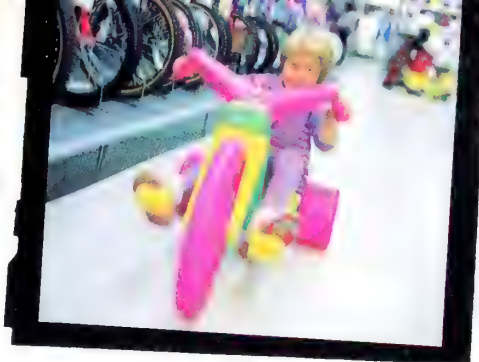
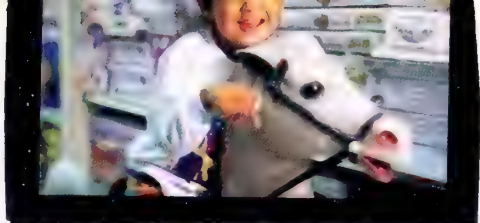
Q: Clinton says that if his tax proposals do not bring in enough revenue, he will either phase in his programs more slowly or cut other spending to free up the funds he wants. Do you believe him, or do you think he will increase taxes more than he said during the campaign?

Believe he'll slow down or cut other spending	23%
Think he will increase taxes	74%
Not sure	3%

DATA: BW/LOUIS HARRIS & ASSOCIATES
POLL OF 400 SENIOR EXECUTIVES, NOV. 10-17

Do you know me?





Children have become so sophisticated. Today's five-year-olds always want the next big thing—and it always has to be more and more complicated. They come along and they say, "I gotta have." "If I don't get, I will die." They are our salespeople and their grandparents are our best customers.

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We now sell virtually the same toys all over the world. So it stands to reason, if all these kids are playing with the same toys, how could they ever possibly fight with each other? There's a common thread

about how they grow up and what they play with. I think that's terrific. It makes for one world.

I love to visit our stores and listen to our customers—just to find out what they want. I was on a trip last week and I probably spent \$50 out of my pocket. That's because

everything works with the American Express® Card. Hotels, restaurants, car rentals—they all accept the Card. So I don't have to walk around with much money in my pocket. And it's a great record of my trip.

Charles Lazarus
C.E.O. & Founder, Toys "R" Us



Don't Leave Home Without It



Cable engineer in Suffolk: BT has 93% of its home market, but new rivals are cutting in as the EC moves toward telecom liberalization

BRITAIN

THE SUN NEVER SETS ON BRITISH TELECOM

The phone giant has cash, dash, and a global network in the works

At first glance, British Telecommunications PLC looks as if it has its wires crossed. Just six months ago, BT ditched a once promising investment, Canadian equipment maker Mitel Corp., at a \$200 million loss. Then, in early November, it agreed to sell its 20% interest in McCaw Cellular Communications Inc., another supposed long-term investment. And Atlanta-based Syncordia Corp., a subsidiary that manages private communications networks for big corporations, has been slow to take off.

Despite these setbacks, Britain's largest telephone company is hardly in dire straits. BT has ambitious plans to expand, using as springboards its home-grown profits and geographic position between North America and Europe. Iain D. Vallance, 49, BT's chairman since 1987, aims to make his company no less than the world's No. 1 provider of voice,

data, and video communications services to corporations—a \$250 billion market in which its leading rivals are American Telephone & Telegraph Co. and MCI Communications Corp.

NEW FOCUS. Vallance makes no apologies about the exits from McCaw and Mitel: They didn't fit with BT's new focus, he says. An organization man who came up the ranks from BT's predecessor, the General Post Office, Vallance has a clear sense of how to reshape the sprawling company. He says: "We'll stick to what we do well—running networks and offering services across them." That focus is underscored by BT's newest venture, a \$535 million contract to install and operate a private telephone network in Australia for the government of New South Wales.

Vallance's bold run for first place can't be easily dismissed: Finances alone

give him a powerful edge. With only \$1 billion in debt, and \$1.8 billion in cash from the McCaw sale, BT could be debt-free by March, 1994, says Laurence I. Heyworth, an analyst with Robert Fleming Securities Ltd. "Financially, they're the strongest telephone company in the world," he says.

To grab corporate business, BT is plowing \$1 billion into a state-of-the-art worldwide network dubbed Project Cyclone. With facilities in 20 of the world's largest cities, it would bypass existing telephone companies to provide intra-company services for multinationals. BT is already setting up switching centers for Cyclone in London, Frankfurt, New York, and Sydney. Getting regulatory approvals in each country where Cyclone is planned will delay full operation until the year 2003. Nevertheless, Cyclone is putting BT "way ahead of the game," says Roger J. Camrass, a director of Arthur D. Little Ltd. in London.

Until then, BT is taking on AT&T and other international carriers with a wide array of services. Syncordia, set up a year ago, will assume complete control of a client company's global telecommunications, often by taking over an existing in-house network. But growth has been slow, and competition is increasing in Europe as the Germans and French as well as the Dutch and Swedes, have teamed up to form similar ventures. Syncordia now manages networks for

only four companies, including IBM Europe and BP Chemicals Inc.

BT also owns Tymnet, a low-speed data-transmission service it purchased from McDonnell Douglas Corp. in 1989 for \$300 million. Tymnet is being meshed with BT's ubiquitous Global Network Services, which provides data transmission in 1,000 locations around the world.

These global efforts are being launched from a strong home base. With 93% of Britain's local and long-distance market, BT is expected to show earnings of \$4 billion on revenue of \$20 billion in the year ending Mar. 31. That's after a \$591 million charge from the elimination of 45,000 jobs. The staff cuts, says Yankee Group Europe analyst Sean Phelan, "are all part of a long-term plan to convert from a hidebound, state-owned monopoly to a full-service, competitive player worldwide."

CHALLENGERS. BT is taking a risk, however, by going its own way in most initiatives. That Lone Ranger attitude could hurt as telecom begins loosening up in Europe, where state-owned cartels still control most markets. The European Commission already is allowing competition in such niche markets as videoconferencing and private data networks. When international voice calls are added to the package, Phelan's Yankee Group foresees a price war, with BT, France Telecom, and Deutsche Bundespost Telekom, as well as AT&T, MCI, and Sprint, battling over big corporate customers.

BT's gravy train could also derail in Britain. Mercury Communications, the Cable & Wireless PLC subsidiary that has been a feeble competitor in phone service, has a new partner. The purchase of 20% of Mercury by BCE Inc., the big Canadian telecom group, is expected to make it a more formidable foe.

Cable-TV companies are luring away BT customers, too. Rules allow them to carry both entertainment and voice communication. After a slow start, cable-TV rivals now have 400,000 customers and are picking off 10,000 BT users a month. U.S. West Inc. has joined with Telecommunications Inc., a Colorado-based cable-TV company, as the biggest player. "For the first time in its existence, BT can see, feel, and touch challengers in the U.K.," says Richard Woollam, director of the Cable Television Assn., a London-based trade group.

Since privatizing in 1984, BT has come a long way from its stodgy, state-owned past. But it still needs to introduce new technology and shrink staff—without hurting customer service in its now competitive home market. And it faces stiff competition for multinational corporate clients, which have more options than British users. As a global player, BT still has some connections to make.

By Paula Dwyer in London

SWITZERLAND

RUGGED TERRAIN AHEAD FOR SWITZERLAND

If voters reject economic alliances, the country may wind up an outcast

The latest crack in the concept of a unified Europe may come on Dec. 6 in Switzerland. If opinion polls are right, Swiss voters will turn down, by a 52%-to-48% majority, their government's plan to join a new 19-nation European trade zone. They're also expected to reject amendments aligning 65 key Swiss economic laws with European Community legislation.

But slamming the door on Europe could prove suicidal. Even a narrow no vote could spark an immediate run against the Swiss franc. That could touch off a rise in interest rates, as well as a sell-off by foreign investors of blue-

ed severe problems at banks such as Schweizerische Volksbank and the Kantonalbank von Bern.

The malaise is boosting the fortunes of such right-wing populists as Christoph Blocher and his Swiss People's Party. "We didn't fight foreign domination for 700 years to give up our freedom now," says Blocher, a parliamentarian and businessman who runs specialty-chemical maker EMS-Chemie Holding in Zurich.

Proponents of a yes vote argue that most of what Blocher predicts will happen a lot faster if voters say no. Rents, indexed to mortgage rates, will certainly

rise if interest rates do. And, some warn, unemployment could quickly double, to 7%, as companies shift activities out of Switzerland, for fear of discrimination by other nations. Already, four out of five employees of the top 15 Swiss companies work in other countries.

The exodus would involve big names. A no vote would make multinational Nestlé "consider whether we still need 4,000 employees in Switzerland," says com-

pany spokesman François-Xavier Perroud. Already, chemical giant Ciba-Geigy has set up a biotech research facility in France, across the border from its Basel headquarters. Drug company Hoffmann-La Roche has frozen nearly \$50 million of Swiss investments.

What's more, Switzerland's proud reputation as a haven of stability could be marred by political and currency turmoil. The Swiss government, in an attempt to calm the waters, is trying to hold on to its banking secrecy, farm subsidies, and tight immigration rules.

Even so, the good times that have rolled in Switzerland for the past 50 years are ending. Unless the 20% of electors who are still undecided swing the vote to a last-minute yes, Switzerland could find itself painfully isolated.

By John Templeman in Geneva, with Ellen Wallace in Lausanne



NO THANKS: THE SWISS RIGHT IS LEERY OF FOREIGN ENTANGLEMENTS

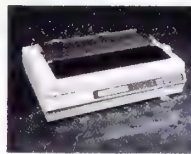
chip Swiss shares. In the long run, it could cause Switzerland to be locked out of the European Economic Area (EEA), due to start up in mid-1993. A free-trade zone embracing 380 million consumers, it would combine the 12-nation EC and the 7-nation European Free Trade Assn. (EFTA), which includes Switzerland. To be an outcast would be a severe blow to Switzerland, which derives a hefty 60% of its \$225 billion economy from international trade.

BATH TIME. Perversely, however, the country's pressing need to restructure its economy is helping the anti-Europe vote. After two years of zero economic growth, consumer confidence is at an all-time low, and unemployment is a record-high 3.5%. Real estate prices have taken a bath—plummeting by as much as 40% in Geneva since 1989. That fall, along with other loans that have soured, creat-

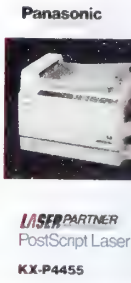
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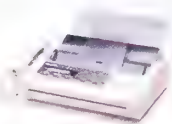
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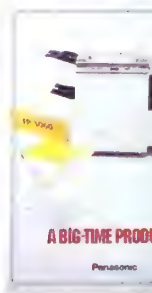
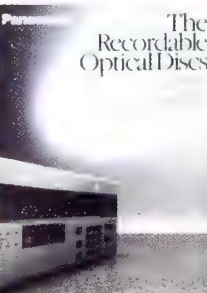
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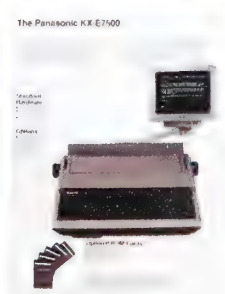
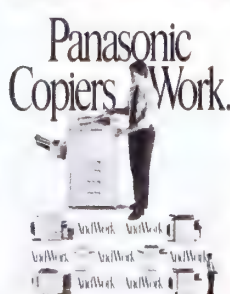
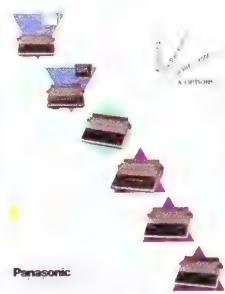
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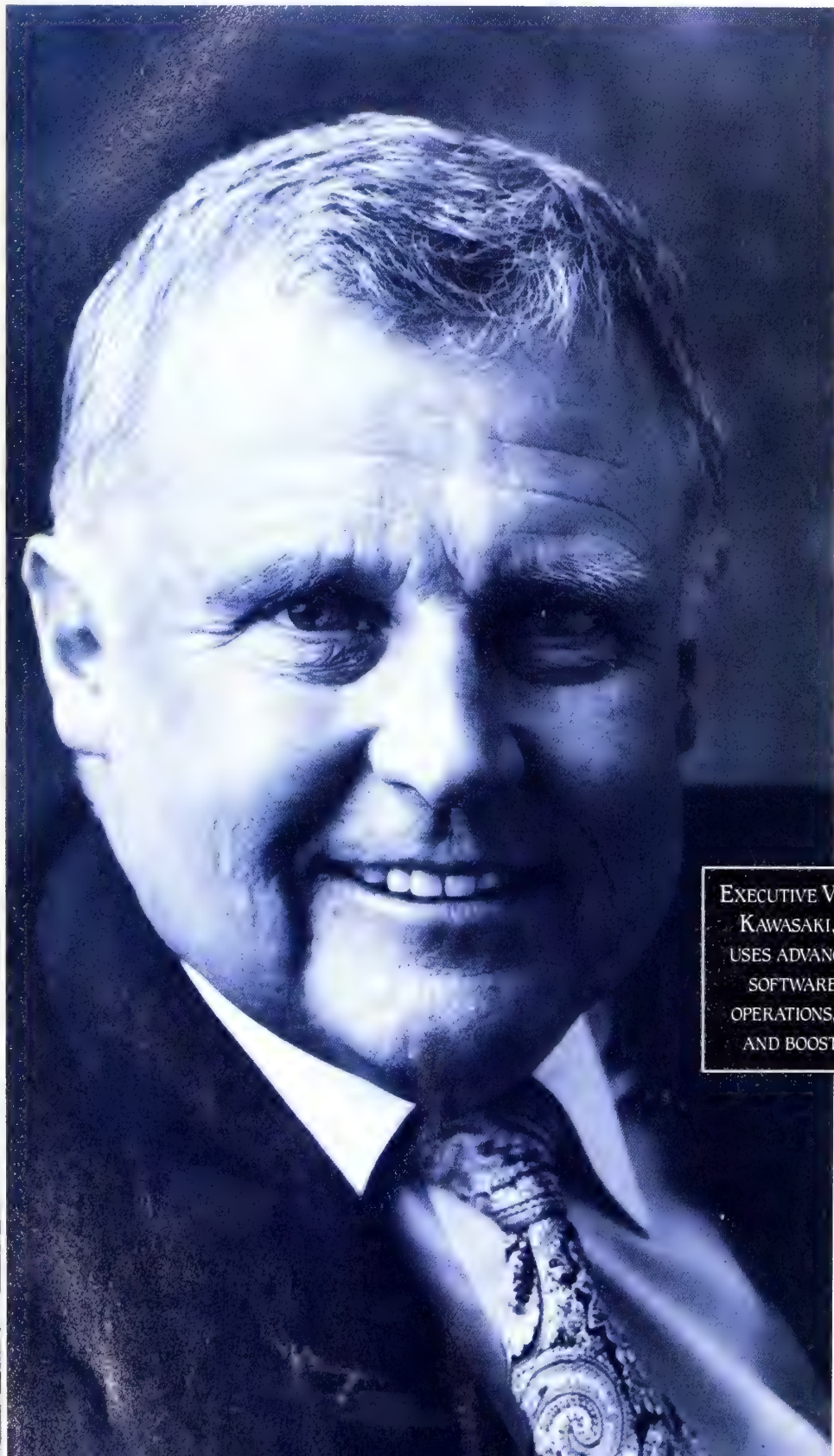
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MEXICO: SUDDENLY, SALINAS IS LOOKING A LITTLE DEFENSIVE

At a recent cocktail party in Mexico City, a new arrival from Brazil remarked to President Carlos Salinas de Gortari that Mexico seems a lot more stable than the Latin American giant, whose corrupt President has just been impeached. Salinas rolled his eyes heavenward, crossed his fingers, and quipped "*Ojalá*"—"God willing."

After sailing through his first four years in office, Salinas is finally starting to run into some flak—just as he starts looking for a successor to continue his economic reforms. A mid-November election in the border state of Tamaulipas erupted in violent protests against alleged vote fraud. At the same time, the hot Mexican economy that has given Salinas license to ram through his reform program is starting to cool off.

SHARPER EYES. The 44-year-old Mexican leader was also stung by the defeat of his friend George Bush. Bush gave Salinas a virtual free ride by ignoring Mexico's internal affairs. True, President-elect Bill Clinton has conditionally endorsed the North American Free Trade Agreement that Salinas negotiated with Bush. But Mexicans think that Clinton may push Salinas to reform Mexico's authoritarian political and labor practices and clean up its environment—if he wants to get NAFTA through the U.S. Congress. "The government is becoming vulnerable to criticism and pressure at home and abroad," says Sergio Aguayo, a political scientist.

Increasing scrutiny from up north has energized Mexico's grass-roots democratic movement, whose protests have forced Salinas to remove four provincial governors belonging to his Institutional Revolutionary Party (PRI) in the last two years. The opposition is expected to turn up the heat in five fiercely contested gubernatorial elections next year.

The usually supremely confident Salinas is already looking a trifle defensive. He recently bowed to opposition demands by pledging to work toward limiting campaign expenditures and balancing media coverage of candidates. He also made a big deal of having his picture taken for the new voter registration cards aimed at thwarting repeat balloting. But he took the gloves off when he chucked 17 opposition leaders in jail on charges of inciting the election violence.

The heightened political tension might make it difficult for him to continue the fiscal austerity aimed at cutting the ballooning trade deficit and bringing down inflation—now running at 12%. Economic growth has already dipped from 3.6% in 1991 to 2.7% this year. "1993 isn't going to be an easy year," observes Jonathan Heath, a leading Mexican economic analyst.

What occurs in the next few months will undoubtedly influence Salinas' thinking about his choice for the PRI's presidential candidate at the end of next year. If things go badly in Mexico or on NAFTA, he may feel pressure from PRI heavies not to pick another economic reformer such as Finance Secretary

Pedro Aspe. Salinas might have to opt instead for a party insider such as Luis Donaldo Colosio, secretary of social development, or Manuel Camacho Solis, mayor of Mexico City.

While such a choice would probably make foreign investors nervous, it's not likely that Mexico can escape such growing pains. Following the model of Taiwan and South Korea, it put political reform on hold while it revolutionized its economy. Now those Asian countries are coming to grips with democracy. Mexico can't be too far behind.

By Geri Smith in Mexico City



VIOLENCE MARRED VOTING IN NOVEMBER

GLOBAL WRAPUP

LIBYA

Colonel Muammar Qaddafi seems to think he can get a better deal from the Clinton White House than he did from Presidents Reagan or Bush. In a speech in late November, Major Abdulsalaam Jalloud, the regime's No.2, said Libya will be more "in harmony" with the U.S. government. In recent days, Qaddafi dumped his Foreign Minister, Ibrahim Muhammed al-Bishari, who was accused of being unable to end U.N. economic sanctions. They were imposed last April when Qaddafi refused to hand over two Libyans accused of involvement in the 1988 Pan Am Lockerbie bombing.

Qaddafi also hopes to stop the U.N. Security Council from toughening the sanctions, which now include a commercial air embargo, at yearend.

TAIWAN

To the delight of American companies, U.S. Trade Representative Carla A. Hills will break the 13-year ban on Cabinet-level visits to Taiwan. Her two days of meetings with Taiwanese trade and government officials starting on Dec. 2 will put the U.S. on equal footing with the Europeans, who have sent a stream of top officials to Taiwan recently. The special attraction is Taiwan's six-year, \$300 billion plan to upgrade its infrastructure. U.S. executives

had worried that if Washington didn't show up, for fear of offending Beijing, their shot at winning contracts for Taiwan's billions would be weakened.

RUSSIA

President Boris Yeltsin is having trouble giving up the old Soviet game in Cuba. The Russians recently initialed a new deal with the Castro regime that will likely boost flagging oil-for-sugar trade by 150%, to \$1 billion, in 1993. While subsidies will supposedly be eliminated, Moscow will keep its eavesdropping facilities and its naval base on the island—and pay rent for them.

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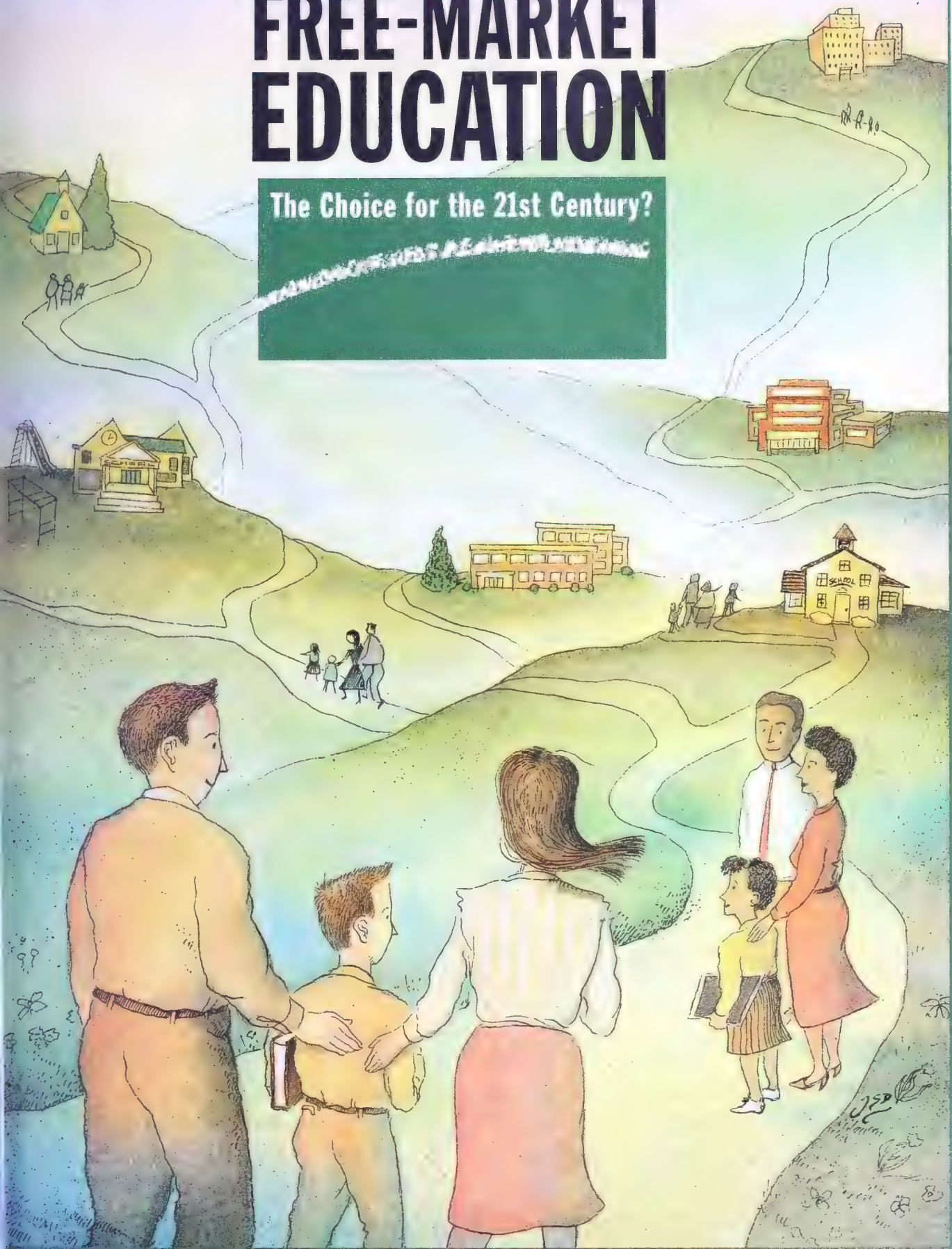
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A Question of Choice

In the course of two generations, nearly every would-be remedy for the nation's education crisis has been tried.

Call it "the permanent crisis."

Ever since the launching of the Russian satellite Sputnik in 1957, the American education system has been in a state of permanent revolution. Over the course of two generations, nearly every would-be remedy for the nation's education crisis, from the "new math" to "back to basics," has been tried — most, many times over.

The bad news is that it hasn't worked.

By now, anyone who cares about the future of education is familiar with the falling test scores, high dropout rates, and verbal and mathematical illiteracy that have become the scarlet letters of America's classrooms. Liberals and conservatives alike agree: our schools are failing.

And it isn't for lack of trying. Across the country, governors have raised both taxes and state education budgets, sometimes at the cost of their own jobs. By the end of the 1980s, education spending, adjusted for inflation, was one-third higher than it had been at the beginning, and this after its having climbed by some 40 percent the decade before. In Milwaukee's troubled public schools, to cite just one example, state education funding soared from \$129 million in 1980-81 to \$310 million in 1991-92 — all to little effect.

What went wrong?

Brookings Institution social scientists John Chubb and Terry Moe, among the most prominent school-reform critics, contend that this patchwork of conventional school reforms simply "does not get to the root of the problem." Their review of 500 schools and 22,000 students, carried out as part of their controversial 1990 study *Politics, Markets, and America's Schools*, suggests that the blame for poor academic performance lies not with teachers and classrooms as much as it does with the calcified institutions — school boards, teachers' unions, and administrative superstructures — that govern them.

THE FAILURE OF SCHOOL REFORM

Education journalist Tom Toch offers a disturbing glimpse into this institutional inertia in his 1991 book *In the Name of Excellence*.

Over the 1980s, he points out, 46 states raised their graduation standards for science and mathematics in an effort to boost student learning. Yet in his tour of schools around the country, Mr. Toch found that "tremendous numbers of students are being permitted to satisfy new graduation requirements with a host of insipid courses that are appearing where requirements have been raised."

In Florida, for instance, high school students could fulfill their 4-year science mandate without having to take a single course in biology, chemistry, or physics; in the high school general math sequence, young people studied nothing but arithmetic for 4 years. Mr. Toch observed similar patterns in Bill Clinton's Arkansas, where course-taking requirements are nominally among the nation's most stringent.

Disconcerting as these watered-down curricula might be, other observers contend that miserliness rather than miseducation remains the real problem. "We need to substantially increase our funding for education," insists the Milwaukee-based advocacy group Rethinking Schools. "The bottom line is our schools need more resources." Jonathan Kozol, the fiery education critic and author of last year's *Savage Inequalities*, says that nothing less than a "massive" infusion of money into urban schools, to bring them up to the level of their suburban counterparts will do the job.

If so, inner-city students may be shortchanged for a long time to come. After a spending boom in the 1980s that bought few lasting gains, state officials are increasingly wary of pouring scarce dollars into education. And many states simply can't afford it. As for sizeable increases in Federal funding, the political forecast is simple: forget it.



ENTER SCHOOL CHOICE

It's into this environment of failed reforms and falling resources that the white horse of educational reform – school choice – has come charging. From a virtual footnote in Republican party platforms of the pre-Reagan era, school choice has become the “most prevalent reform idea of the 1990s,” in the words of University of Wisconsin political scientist John F. Witt.

The data bear him out. Already, 13 states and scores of local systems boast school choice arrangements of one form or another, with fully 37 states having considered choice legislation in 1992 alone. And the numbers keep on growing:

- Minnesota, Massachusetts, and Milwaukee – all of which adopted high-profile choice plans in the 1980s – continue to expand coverage under those plans. More recently, statewide choice initiatives have become the centerpiece of school-reform efforts in such bell-wether states as California, Colorado, Florida, and Pennsylvania.

- Following on the widely reported success with public-school choice in East Harlem, New York City Schools Chancellor Joseph A. Fernandez announced in September that, beginning next year, his office would allow parents throughout the New York area to send their children to any public school in the city's five boroughs – in one stroke producing the largest urban choice plan in the country. School superintendents in cities ranging from San Francisco to Washington, D.C., and from Austin, Tex., to East Orange, N.J., have proposed comparable plans for their own schools.

- Not content with current educational offerings, communications entrepreneur Christopher Whittle last year launched his \$3.1 billion Edison Project, designed to create from scratch 1,000 “break-the-mold” choice schools by early in the next century. In a separate move, the state of California this September joined Minnesota in authorizing “charter schools” – learning centers formed by parents and teachers independently of the public school system.

Not all the news is good news for the advocates of school choice, of course. Two years ago, voters in Oregon soundly defeated a proposal to grant state tax credits for private and home schooling. This year, Colorado voters rejected a similar plan, while opponents of choice managed to block a statewide choice initiative from even reaching the ballot in California. Nationally, Congress has repeatedly turned back attempts to experiment with

choice arrangements involving private schools.

Still, with the tidal wave of activity in the states, it's hard to fault the enthusiasm of Marquette University political scientist Quentin Quade, director of the university's new Center of Parental Freedom in Education, “There's no question that there is a tremendous momentum around the country behind [the choice] movement,” he says. “It's just a question of time before the dam breaks.”

TURNING SCHOOLS UPSIDE DOWN

To some, this prospect is as unwelcome as the collapse of the Hoover Dam might be to residents of Las Vegas – especially when private schools are involved. Allowing kids to opt out of their neighborhood public school, asserts Chicago School Supt. Ted D. Kimbrough, is “anti-American. It is anti-democratic. It is anti-everything we stand for . . .” It is, in Jonathan Kozol's words, “a

trriage of the worst kind.”

Indeed, about all that contenders in the choice debate can agree upon is the magnitude of change implied by school choice – a change that would literally turn the infrastructure of public education upside down. They acknowledge that, with rare exceptions, the traditional neighborhood-based school system inextricably ties families to their local public school – unless the fam-

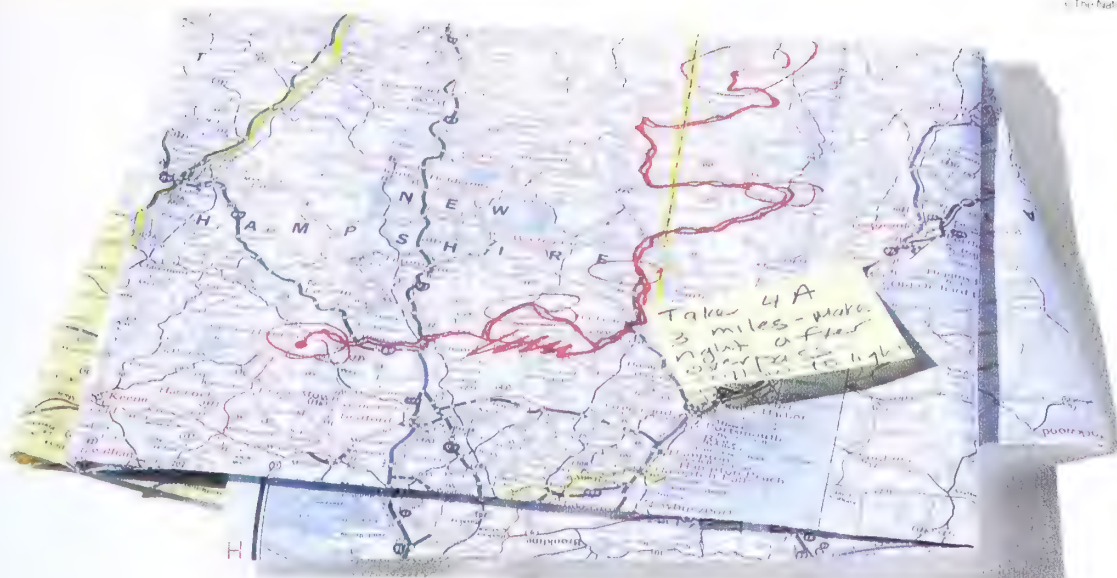
ily pays extra for the privilege of sending their children elsewhere. Choice plans, to a greater or lesser degree, would break this iron link between home and classroom, and thereby set free the “captive audience” that the local public schools have long held.

The resulting competition for students, say proponents of choice, would bring to the education system the diversity and quality that free economic markets have recently brought to computers, communications equipment, and cable television. Opponents charge that school choice would do just that – producing academic C-SPANs for the rich and the educational equivalent of “Wheel of Fortune” reruns for everyone else.

For a generation of young people already struggling with their educational futures, the debate over choice is a great deal more than a passing fad or a political fancy. It is, instead, a roll of some very large dice. School choice might prove to be these youths' first step toward intellectual salvation – or it might plunge the most vulnerable among them even further into ignorance, perhaps beyond rescue. It's hard to imagine a *political* choice more fundamental – or consequential – than that. ■



For a generation of young people already struggling with their educational futures, the debate over choice is a great deal more than a passing fad or a political fancy.



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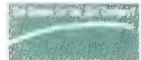
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The Choice Debate

The choice debate,
at its most basic level,
is a battle for the soul of
American education.

The choice debate, at its most basic level, is a battle for the soul of American education. The triumphant 1992 Democratic platform warns that private-school choice of the type advocated by President Bush would "bankrupt the public school system . . ." Deborah Meier, director of the Central Park East school in New York City, an archetype of public-school choice, concurs. The purpose of proposals like the President's, she says, is not really to increase parental freedom but "to get rid of public education."

To some in business, as it turns out, that would be just fine. "Blow up the current public education system . . ." RJR Nabisco CEO Louis V. Gerstner, Jr., urged in a 1990 address. "No more tinkering at the margins." David Kearns, the former Xerox CEO who became Deputy Secretary of Education in the Bush Administration, insisted a short time later that "it is time [for business] to take ownership of the schools." A few, like Edison Project founder Christopher Whittle, took Mr. Kearns at his word. "You have to have a West Berlin for East Berlin to fall," he explained to *The New York Times*, "and what we're really doing here is building West Berlin."

Comments like these are typical of the explosive rhetoric surrounding education choice – a political war of words whose emotional decibel level is exceeded perhaps only by that of the abortion debate. Yet choice can be examined on a more rational level as well. For choice is apt to be neither the calamity public-school defenders fear nor the cure-all many advocates suppose. It is, rather, as imperfect a vehicle as free-market capitalism itself and, like capitalism, is certain to have both positive and negative effects. To understand what choice really means for American education, it's essential that we step back from the larger battleground to determine what those specific effects might be.

THREE KINDS OF CHOICE

Choice is not a monolithic concept. There are many kinds of choice, and the details can vary widely even among plans that, on the surface, sound the same. Still, it's possible to identify three major types of school choice that are fundamentally different from one another:

- *within-district choice*, under which students are permitted to attend any public school in the school district where they reside, but not schools outside the district;
- *interdistrict choice*, in which students may attend public schools both within and outside their home district; and
- *parochial/private-school choice*, in which students may attend parochial/private as well as public schools.

Under each arrangement, a family is allowed to choose its child's school, subject to certain restrictions – district residents may be given an enrollment preference, for instance, or transfers into a school may be prohibited if they upset the school's racial balance. In most public-school plans, families make their selection and accountants merely shift education funds among public schools based on enrollment levels; in private-school arrangements, families usually are given a credit against public tax dollars (often called a voucher) that can be used to pay part or all of the tuition at any school of their choice, public or private.

Obviously, plans that offer families a wider array of choices also move the public education system further from its neighborhood-school traditions. Resolving the choice debate therefore requires deciding not only whether allowing parents to choose their children's school is a good idea, but also how open-ended that choice should be. It's a question, as the earlier remarks indicate, where common political ground is nowhere in sight.



JUDGING SCHOOL CHOICE

The advocates and opponents of choice do agree, however, on the standard by which school choice should be judged. "The question for any of the 'choice' programs is whether they will fix what's really wrong with America's schools," says historian Ann Bastian, author of *Choosing Equality: The Case for Democratic Schooling*.

Choice proponents contend that school choice will do just that and more. Joe Nathan, director of the University of Minnesota's Center for School Change and one of the principal designers of Minnesota's statewide open-enrollment plan, says that choice promises to enhance young people's education in three main ways:

- By requiring schools to compete for students, choice will force all schools to improve themselves – or else risk going out of business.
- By offering families a larger voice in their children's schooling, choice will allow them to select an educational program that better matches their children's needs.
- By making it possible for families to easily choose a school other than their neighborhood public school, choice will give poor and middle-class families the same broader education options the wealthy have always had.

Detractors answer that these promises, attractive as they might sound, are little more than illusions. In a widely heralded report released just this October, the respected Carnegie Foundation for the Advancement of Teaching concluded: "In states where choice has been introduced, participa-

tion is minimal, and those parents who do select an alternative school often make their decision on convenience factors rather than academic concerns." While conceding that a few school districts have been revitalized by choice programs, the group insisted that "many of the claims for choice have not been realized. There is little evidence," it said, "that choice alone will renew the nation's schools."

But the Carnegie researchers' objections go beyond the potential educational effects of choice. More fundamentally, they worry that choice might undermine America's democratic heritage. Henry M. Levin, a professor of education at Stanford University who has been studying choice for a number of years, has been troubled by the same concerns. Historically, notes Dr. Levin, American schooling has been designed to offer a "common educational experience" that will "provide a common set of values and knowledge that is needed for the functioning of a democratic society." By contrast, "the very appeal of the market approach [to education is] to create schools that will compete for clientele" – a step, he says, that "must necessarily create a divisive system of education rather than one that converges on a common educational experience."

THE COMMON-SCHOOL TRADITION

The need to protect against this assault on the "common-school tradition," as it's often called, is one of the most powerful arguments against choice, since there is no way for a market-based education system to promote both competition and uniformity at the same time. "In a culture that celebrates the prerogatives of the individual, the public schools are potentially one of the most meaningful forces for social cohesion," argues Bill Honig, California's superintendent of public instruction. Publicly supported choice, he insists, "gives up on achieving such a consensus. It says, to each his own. The net result would be one less unifying force" in society.

Proponents of choice don't deny the enormous historical contributions of public education, but contend that the "common school" that public-school defenders so eloquently extol disappeared a long time ago – and might not be desirable even if it were still around.

"The public school has largely abandoned the role that was of such central importance" to early common-school advocates, that of "conveying moral principles for which there was a societal consensus," writes Boston University professor Charles Leslie Glenn, Jr., former director of the Massachusetts Bureau of Equal Educational Opportunity, in *The Myth*



of the Common School. Today, says Mr. Glenn, few "values" are taught as part of the public-school curriculum, and most of those that *are* discussed, such as those dealing with race, gender, and sexuality, are matters over which there is no social consensus – hardly the basis for building a unified society.

Choice supporters say the common-school tradition has disintegrated in other important ways as well. "No one who has witnessed the exclusivity of [public schools in] New Trier, Grosse Pointe, Piedmont, or Palo Alto could ever suppose that democracy is public education's most important product," contends John E. Coons, a law professor at the University of California at Berkeley and one of the earliest advocates of choice. University of Chicago sociologist James S. Coleman, whose pioneering research in the mid-1960s helped to ignite the equality-of-educational-opportunity movement, concurs. Modern-day neighborhoods have become so stratified in terms of race and income, he says, that the demographics required for a "common schooling" experience no longer exist.

Indeed, the diversity occasioned by choice arrangements may build stronger, more democratically committed citizens than strict uniformity does. Boston University's Mr. Glenn calls choice schools the "new common schools" because he believes they offer far more opportunities for bringing together kids of different races and classes than do the local schools in racially and economically segregated neighborhoods.

A RIGHT TO CHOOSE?

The comments of Messrs. Glenn, Coon, and the others bring to light one of the more surreal aspects of the contemporary choice debate: the public school system typically portrayed and defended by the opponents of choice is not the one that exists in our cities and neighborhoods. Anyone who has ventured inside today's public schools knows that they provide neither a common nor an equal education, no matter what state curriculum standards might require: course offerings vary widely, as do financial resources, learning environments, and the quality of teaching.

Why, then, the fear that educational choice will undermine the nation's sense of community?

Some public-school defenders insist that publicly financed choice will bring about a proliferation of marginal, hate-mongering schools and hence intensify already smoldering social tensions. With private-school choice, predicts California's Bill Honig, "we'll have schools teaching the Marxist-Leninist view of history, we will have Farrakhan schools, we will have schools that teach the La Rouché point of view, and nobody can do anything about it."

Choice proponents counter that Mr. Honig's claim is just an empty scare tactic; government, they note, could simply bar the use of school credits at any institution whose course offerings did

not conform to state or community standards, as it has long done for college aid.

Yet nonpublic schools have been in existence since the country's founding, with few having ever promoted sedition or social divisiveness. Nor have contemporary choice plans spawned a wave of anti-American schools. More often, they've done the opposite, contends futurist Marvin Cetron in *Educational Renaissance*. In East Harlem, for instance, start-up choice schools are "very much business-as-usual. While giving students a solid background in the core subjects," he observes, "most of the area's schools have specialized in fields from computer science to the performing arts." Even in Milwaukee, with the only broad-based private-school choice plan in operation, course offerings are unremarkably mainstream.

Civic Equality

Evidently, there must be deeper reasons for the impassioned opposition to choice in public-school quarters. We can gain a hint of what these real concerns might be by listening to Sybil Downing, chair of the Colorado State Board of Education. The battle over choice, she tells *The New York Times*, "isn't really about education. It's about people from all different backgrounds and walks of life coming together and learning about one another. That's how the country was built."

Public schools, in other words, aren't supposed to *teach* democratic values as much as they are supposed to *practice* them – specifically, by creating an environment characterized by what *The New Republic's* Mickey Kaus calls "civic equality," in which all people have equal rights and endowments, no matter what their race, gender, or socioeconomic standing. Mr. Kaus details this principle in his recent book *The End of Equality*, in which he calls for national service, reinstitution of the draft, a national health plan, and an end to exclusionary residential zoning so as to promote civic equality in all aspects of social life.

The key feature of these and other social-mixing institutions, Mr. Kaus explains, is their implicit message that "we're all in this together," – that none in society can gain advantage over their fellow citizens purely because of privilege or power. By tethering children to their neighborhood schools, the public-school system is designed to foster this lifeboat mentality in education, ensuring that all of a neighborhood's families – rich, poor, or otherwise – sink or swim according to the quality of their local schools. By contrast, because educational choice makes it easy for families to sever their ties with the neighborhood school, those families with means, connections, or merely determination can leave their neighbors and local schools to sink while swimming themselves for safer educational shores.

The emotional core of the choice debate thus comes down to this: Should families be permitted

Proponents of

choice don't deny the

enormous historical

contributions of public

education . . .

If choice is supposed
to help the poor,
how could it wind up
hurting?

(through choice plans) to act *on their own* to better their children's schooling, or should they be forced to cooperate with other local parents in order to raise education standards for the entire community?

There is no easy answer to this question, since American democracy springs from both individual and communitarian impulses. Tommy G. Thompson, the Republican governor of Wisconsin, made the case for the individual prerogative at a 1989 White House conference. "Parents should have a right to decide where their children should go to school," he asserted. "It's as simple as that. Parents are responsible for overseeing their children's education, and they, not State government, not school boards, should decide what influences dominate the prime hours of their children's day." Public-opinion surveys routinely show that as many as three-quarters of parents – including even larger percentages of poor and minority parents – agree with Gov. Thompson's view.

But most public-school defenders do not. Dr. Ernest L. Boyer, president of The Carnegie Foundation, cautions that, "when all is said and done, we dare not permit the current choice debate to . . . divert us from the urgent, unceasing task of making every public school a source of national strength in pursuit of excellence for all." Some leading business groups are equally cautious. The Business Round Table, an organization of more than 200 CEOs from major U.S. corporations, argued in a recent policy statement that "choice is a means not an end. The end is better education for everyone and a better outcome for . . . the nation as a whole."

A Question of Equity

In one sense, though, it's difficult to take public-school defenders' communitarian pleadings too seriously, since so many fail to practice what they preach. For example, public-school teachers nationwide enroll their children in nonpublic schools twice as often as other parents do; in Chicago, some 46 percent of public-school teachers choose nonpublic schools for their own children while, in Milwaukee, the figure is 62 percent.

It's behavior like this that leads some public-school critics, like University of Massachusetts legal studies director Stephen Arons, to describe the current education system as "freedom of choice for the wealthy, compulsory socialization for the rest." In fact, economically well-off families now have nearly as many educational options as they would under choice, since most of these families already have the financial wherewithal to send their children to any school of their choosing.

As a result, say choice proponents, only the poor and middle class would gain from choice, since they alone are confined to their neighborhood schools, unable to afford private-school tuitions or the sky-high home mortgages in the exclusive neighborhoods where the best public schools are often located. Notes the University of Minnesota's

Joe Nathan: "The real question isn't whether we should have choice in education; it's whether the poor and middle-class should have the same freedom to choose that wealthier families have."

While conceding this goal is important, many skeptics worry that choice would do just the opposite – especially with plans in which private schools were involved. Such arrangements, charges Adam Urbanski, a vice president of the American Federation of Teachers (AFT), would produce a "two-tiered educational system – nonpublic schools for those who could afford it and pauper schools for the rest." The result would be an end to "efforts to improve the schooling of youngsters . . . from economically or educationally disadvantaged backgrounds."

If choice is supposed to help the poor, how could it wind up hurting?

In three ways, say choice opponents. First, as Vice President-elect Al Gore argued in October's Vice-Presidential debate, is that private-school choice plans would use taxpayers' money to subsidize the educational decisions of the rich – decisions most wealthy families already make without government aid – thus worsening the inequities in the tax system. True enough, reply choice advocates, but only as far as it goes. They note that school credits easily could be scaled back or eliminated for higher income families, as they were in many of the tuition tax credit proposals through the early 1980s.

CHOICE AND THE POOR

A second, more troubling criticism – one that applies to public- as well as private-school choice plans – is that poor families won't be able to take advantage of school choice, no matter how much or little such plans might help the well-off. Claims the AFT's Bella Rosenberg, assistant to the organization's president: "Although choice proponents may genuinely believe that this reform will advance the interests of poor and minority children, so far none of the choice proposals or laws" have done so.

For instance, data from four states with some form of choice (Minnesota, Massachusetts, Arkansas, and Arizona) indicate that program participants are "disproportionately white and affluent," according to a report from the New World Foundation, a research group. In St. Paul, Minn., for instance, where 42 percent of students are nonwhite, only 15 percent of choice participants are nonwhite. And a study of choice in New York, Chicago, Philadelphia, and Boston, conducted by Designs for Change, a Chicago-based children's advocacy group, concluded that black and Hispanic students, low-income students, and those with low achievement or discipline problems "have very limited opportunities to participate in popular-option high schools and programs" in those cities' magnet-school choice plans.

There are many reasons why the poor might not benefit from choice, but perhaps the most

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obvious is that schools, not families, often make the choice. In the first year of the Milwaukee choice program, for example, no more than about half of the applicants were accepted by any choice school. In New York City, notes Columbia University sociologist Robert Crain, while 50 percent of participants apply to a school of choice, half are rejected because of space limitations and must remain in their neighborhood school. And in Chicago, the majority of applicants to magnet schools are turned down, with the most selective schools accepting only 5 to 10 percent of those seeking admission.

Space Available

When schools have the right to screen applicants in this way, choice opponents say, the poor are inevitably pushed to the back of the line. As the Designs for Change study discovered, "to the extent . . . schools of choice are granted discretion in admitting students, they almost always admit high-achieving and/or well-behaved students and avoid students at risk" — meaning, most often, the poor.

Choice supporters say this just isn't true. "It's ridiculous to say that choice doesn't help the poor," argues Dr. Nathan. "In most places, they're the ones who have the most to gain, because they're most likely to be trapped in some of our worst schools."

In East Harlem, for instance, nearly all choice participants have been poor, and half have been performing below grade level before they changed schools. In Minnesota, according to a new report from the state's department of education, all racial and ethnic groups outside St. Paul and Minneapolis "are virtually proportionately represented among open-enrollment participants." And in the first year of Milwaukee's private-school choice program, most participants were single parents; many were unemployed, and as a group were demographically identical to those families that remained in neighborhood schools.

In any case, choice supporters contend that the selectivity problem is overstated. They point again to East Harlem, which boasts one of the longest-running choice programs in the nation, where more than 90 percent of students receive their first or second choice of schools. In Cambridge, Mass., 80 percent get their first choice and 90 percent one of their top three selections while, in Montclair, N.J., more than 95 percent of students receive their first choice.

Even where stringent space limitations do exist, these advocates add, they needn't be permanent.

David Boaz, vice president of the Cato Institute, a Washington, D.C., based research center, calls the fear that there won't be enough good schools for all students who apply "perhaps the most absurd criticism of education choice." Just "walk down the street in [any] capitalist country," he says. "When every family has the ability to choose a private school, we can count on entrepreneurs . . . to respond" by opening more schools.

Schools in more than 30 Minnesota communities have done just this in the past 5 years. In St. Paul, in particular, the heavy demand for Montessori education has led to a tripling, from 1 to 3, in the number of elementary schools offering a Montessori curriculum. And in New York City, when Deborah Meier's popular Central Park East school became oversubscribed, the school district created two more just like it.

THE ABILITY TO CHOOSE

No matter how nondiscriminatory schools' selection criteria might be or how abundant the schooling options, the poor still may face barriers to freely choosing among schools. One obvious barrier is transportation. Only those families "who have the means to do the driving will be able to choose," says Iron, Minn., teacher Judith Pearson.

Most choice supporters recognize this problem and recommend ways of overcoming it. In Cambridge, for instance, public school buses ferry all students who choose schools more than a mile from their homes. The right to choose a school "is meaningless unless free transportation is provided," emphasizes Boston University's Charles Glenn, who helped design the Cambridge program.

Yet assuring adequate transportation can drive the costs of choice through the roof because of the increase in the number of students needing transportation and the high cost of customized transit routes.

For example, Cambridge's transportation budget rose from \$54,000 to \$1.2 million in the first 7 years of choice. That adds some \$1.5 million in transportation costs in Montclair, N.J., according to the suburban school district's officials. In Kansas City, which has one of the most extensive magnet-school networks in the country, the transportation logistics are so complicated that, as one observer told *The Washington Post*, "we can have a street with 50 kids living on it, and they can literally go to 50 different schools."



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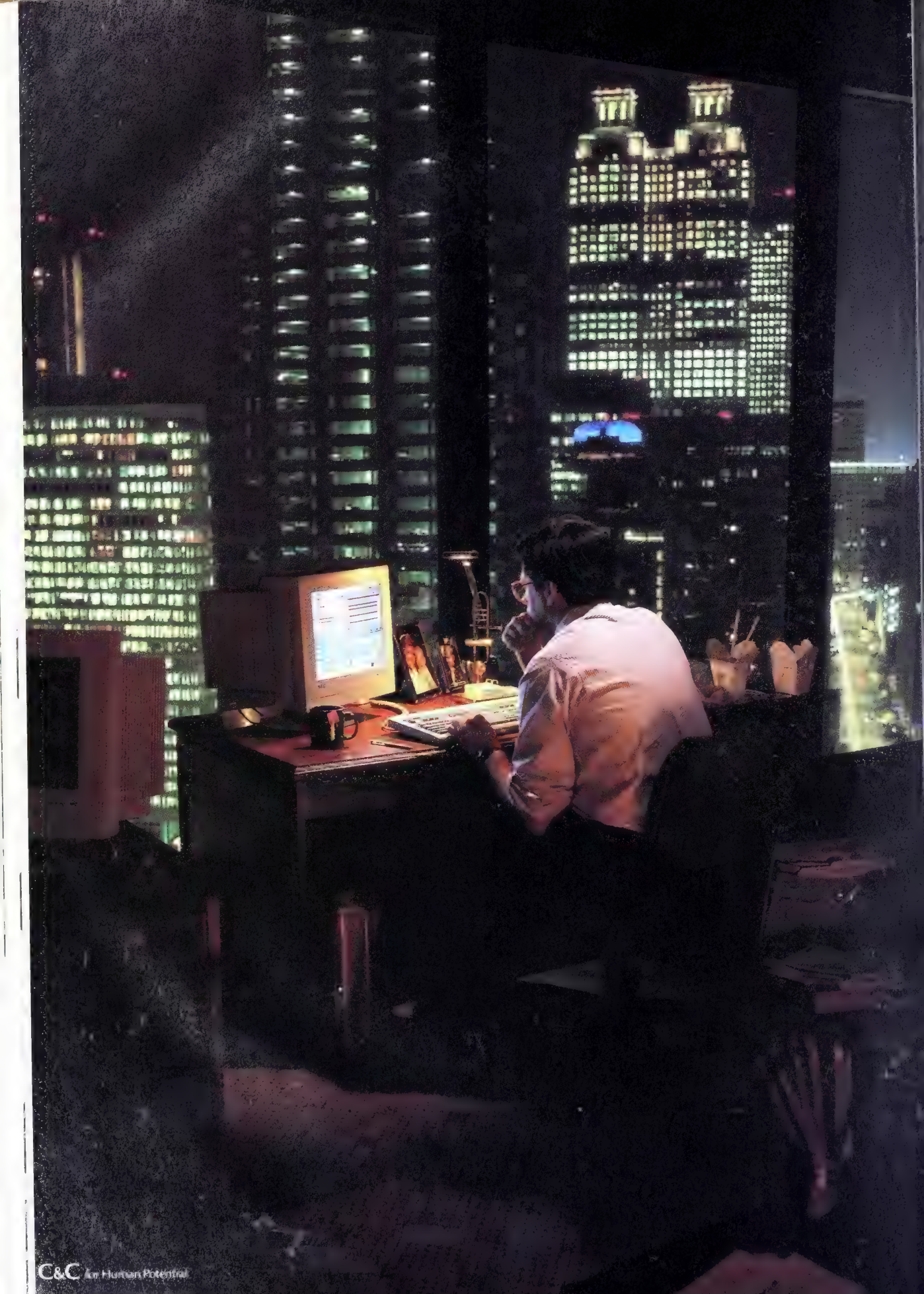
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Information and Audacity

Equally problematic is whether the poor will have enough time and information to make intelligent choices about their children's schools. Many choice opponents contend that they won't. Isabel Sawhill, a poverty scholar at the Urban Institute, a Washington, D.C., based research group, asserts that "poor families are often beset with any multitude of problems, making it difficult for them to cope with the added responsibility [of] evaluating different schools . . ."

Evidence provides some support for this assertion. An early evaluation of Milwaukee's magnet schools, for example, found that "inner-city parents . . . seemed to have almost no substantive idea" of the magnet schools' "purposes, specializations, or even their names." Despite the more extensive publicity associated with Milwaukee's citywide choice plan, notes the University of Wisconsin's John Witte, more than half the parents still don't know about the choice program. And in Chicago, the Designs for Change research group concluded, most poor families had "little understanding of the complexities" of that city's magnet-school options.

Part of the explanation for this knowledge gap is what the Carnegie Foundation describes as the "hit-or-miss" approach that characterizes most information-outreach efforts. "In most states . . .," the group says, "reliable information about school options is scarce." But the problem isn't just the lack of information. In the famous Alum Rock, Calif., voucher experiment in the late 1960s and early 1970s, researchers distributed brochures and other information about the pro-

gram throughout the community over the course of the four year project. Still, one-fourth of area's families—predominantly the poor—remained unaware of the choice program.

R. Gary Bridge, a Columbia Teachers College associate professor of education and co-author of the Alum Rock evaluation, wasn't surprised by these results. Many impoverished parents, he told *The New York Times*, simply can't make educational choices for their children, "which is why these children aren't doing well in school to begin with . . ." Education critic Jonathan Kozol agrees. "Even if a city could contrive a way to get the basic facts [about choice schools] disseminated widely," he asks, "can it disseminate audacity as well? Can it disseminate the limitless horizons of the middle class to those who have been trained to keep their eyes close to the ground?"

THE THREAT TO PUBLIC SCHOOLS

Advocates of choice view the problems of transportation and information with much less alarm than critics do. In Minneapolis/St. Paul and many other communities, for instance, several alternative choice schools are located in a single building, so that youngsters who attend different schools can still ride the same bus, greatly reducing the transportation costs associated with choice. For more conventional school settings, Washington, D.C., school superintendent Franklin C. Smith proposes a dual transportation system he believes will be cost-efficient: for younger children, an expansion of the mini-bus fleet now used to transport youngsters with disabilities to specialty schools; and, for older children, reimbursement for the costs of public bus and subway fares.

Choice advocates contend that the information problem can be resolved with similar creativity. The private-school choice program proposed by choice gurus John E. Chubb and Terry M. Moe, for instance, requires the creation of local parent information centers and the use of parent liaisons in each school district to help families who need assistance in choosing their schools. Massachusetts has put this idea to work in what even choice opponents concede is exemplary fashion. As many low-income as high-income families use the information system to make choices about their children's information schools, notes Charles Glenn, the state's former equal-opportunity director.

Still other choice backers dismiss outright the charge that the poor are too disorganized or "too stupid" to make decisions about their lives just because they happen to be poor. "That's the same argument people used when they tried to deny women the right to vote in the early 1900s and to deny African-Americans the right to vote in the 1950s," recalls the University of Minnesota's Dr. Nathan, a former civil-rights worker. "It was wrong then, and it's just as wrong today." Franklin Smith, the Washington, D.C., Superintendent, agrees. "It's unfair," he says, "to assume that these [low-



income] parents would make poor choices – or no choices – when the one thing they have always been truly deprived of is the option to choose.”

A Death Sentence for Public Schools?

Despite all this, what if some poor families *don't* choose? What if they *are* so overwhelmed by problems in their lives that they simply don't have time to carefully consider their children's schooling options? Choice advocates' response is: so what? Notes education specialist Jeanne Allen of the pro-choice Heritage Foundation in Washington, D.C.: “The worst that could happen is that children for whom no choice is made would be assigned to a school – which is no different from what occurs today.”

This *laissez faire* reaction troubles opponents of choice in two respects. Skeptics worry that, unless every family has an equal ability and inclination to choose a school, choice will leave some children – usually the poorest – stranded at the starting line while others race ahead.

Advocates reply that we make no such guarantees in any other civic endeavor, and shouldn't attempt to do so in education. “We don't deny some people the right to vote because their neighbors stay home on election day,” says Doug Bandow, a former White House aide who helped craft President Reagan's education policies. “We don't prevent ambitious kids from going on to college because their friends drop out of high school. Why should we deny all families, rich and poor alike, the right to choose their own school just because some parents are not willing or able to make a choice?”

A second concern applies to all poor parents, whether or not they make a choice: the claim that choice would make matters worse for the poor by undercutting – even destroying – public education. U.S. Sen. Edward Kennedy (D-Mass.) charges that choice has the potential to be “a death sentence for public schools struggling to serve disadvantaged students, draining all good students out of poor schools.” Herbert Kohl, the author of the acclaimed classroom ethnography *36 Children* concurs, predicting that private-school choice will leave “the children of the poorest and least empowered . . . abandoned to residue schools that function as mere warehouses” for the poor.

Critics assert that choice could undermine the public schools in either of two ways. Private-school choice clearly could drain resources – along with the best students and teachers – from the public system altogether. Even choice confined to the public sector might leave the least popular public schools to ruin, as better informed and more financially able parents fled for suburban schools or high-quality urban magnet schools – taking their share of tax dollars with them.

A New Social Darwinism

Given the experience to date, public-school advocates insist there's reason to fear the effects of choice:

■ School District 1 on Manhattan's predominantly black and Hispanic Lower East Side has been losing students at the rate of 250 per year, thanks to the area's school-choice plan.

■ Westonka, a small low- and middle-income school district in Minnesota, was already reeling economically when 120 students bolted in the first two years of open enrollment, further slashing the school's budget.

■ Brockton, Mass., a struggling lower-class community outside Boston, had to hand over nearly \$900,000 to its wealthier neighbor Avon when 110 Brockton students switched schools, plunging Brockton's educational system closer to bankruptcy. At the same time, the Hopkinton, Mass., school district, after losing nearly 4 percent of its student body, had to put the knife to remedial reading and math programs.

■ In the four city magnet-school study conducted by Designs for Change, researchers found that non-selective urban high schools, which 70 to 80 percent of students continued to attend, were being placed “at an increasing disadvantage by the reallocation of students, staff, and resources to academically selective schools . . .”

The effect of this persistent leak in the public schools' resource base, says the Council of Great City Schools' Michael Casserly, is to create “a new form of Social Darwinism, where the fortunes – and futures – of each child are cast to the competitive winds.” In this hostile new environment, Mr. Casserly goes on, “the goal of each parent becomes solely the success of his or her own child even if it is at the expense of someone else's.”

WILL SCHOOLS IMPROVE?

Advocates of choice view this argument with barely concealed disdain. “What people who claim choice will bankrupt the public schools are really saying is that we should sacrifice poor kids' educations for the sake of preserving the schools – many of which deserve to be closed,” maintains Clint Bolick, director of litigation for the Institute for Justice, a Washington, D.C., public-interest law firm that was instrumental in winning court approval of Milwaukee's choice plan. “The fact that public schools may continue to miseducate their students is no reason to continue holding hostage those . . . who are fortunate enough to opt out.”

Other choice proponents may be more politic than Mr. Bolick, but are no less committed to the belief that the well-being of students, not schools, should be educators' primary concern. “I think the answer to anyone who complains that [choice schools] are taking their kids,” says East Harlem choice architect Sy Fliegel, “is to ask, ‘Why are your kids choosing to leave?’” Annette “Polly” Williams, the Wisconsin state legislator who shepherded Milwaukee's choice plan into law, offers one explanation. “Ask black parents and

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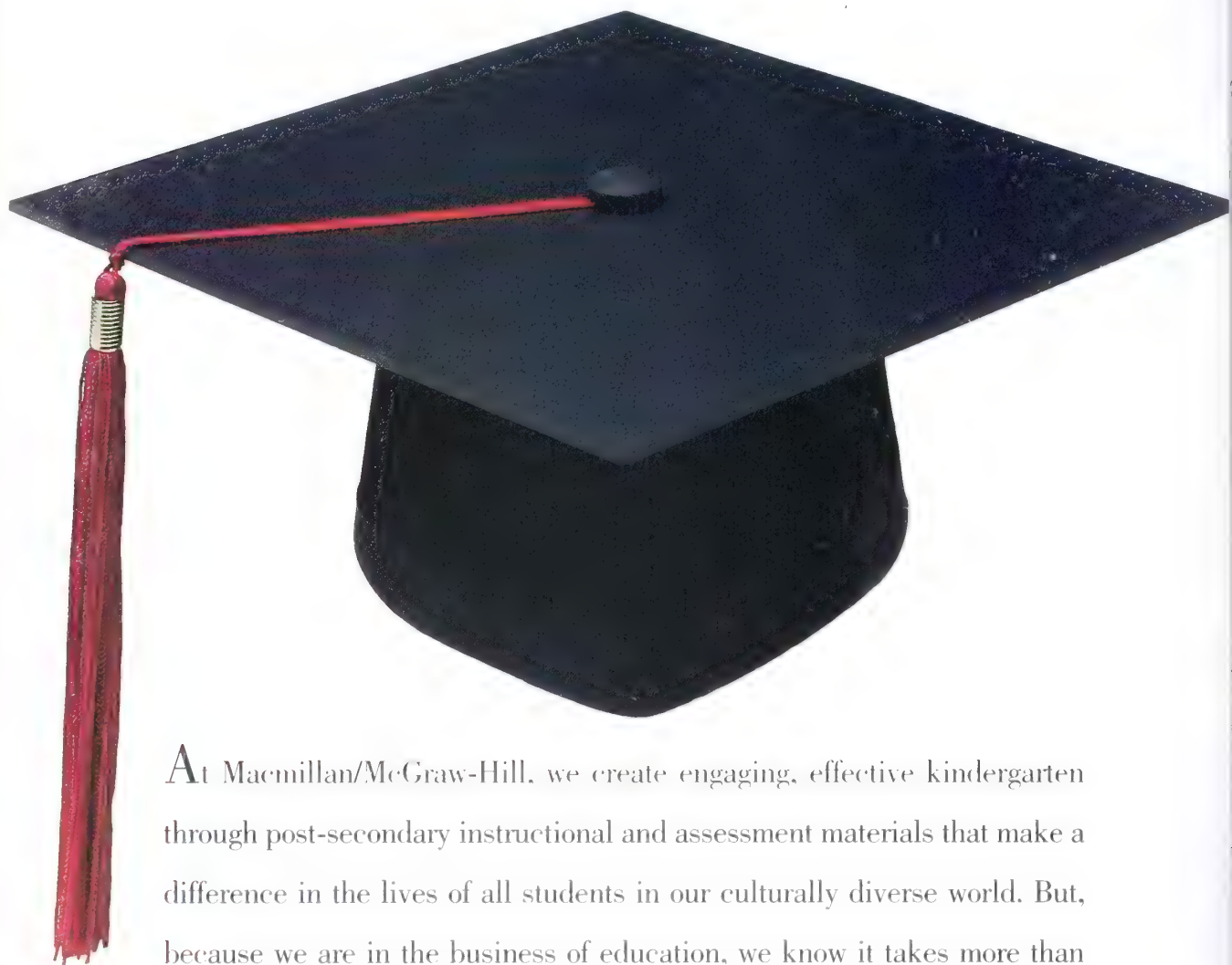
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they will tell you the [public] school systems went bankrupt in terms of results years ago," she asserts. "Let's not throw good money after bad. Let's challenge them to do better."

One of the central tenets of choice is that the competition brought about by the contest for students will do precisely this, forcing schools to improve themselves or else face extinction. "Reformers would do well to entertain the notion that choice is a panacea," John Chubb and Terry Moe wrote in *Politics, Markets, and America's Schools*, because it "has the capacity all by itself to bring about the kind of transformation that, for years, reformers have been seeking to engineer in myriad other ways."

Doing No Harm

At a minimum, Messrs. Chubb, Moe, and their political allies point out, choice is far from the public-school poison described by many of its detractors. For instance:

■ At the same time as Manhattan's District 1 has lost more than 1,000 students, neighboring – and equally impoverished – District 2 has attracted more than 1,600 transferees. Now, District 1 is fighting back, with an environmental magnet school and innovative, participatory-learning programs. "This is the way choice is supposed to work," proclaims *The New York Times*.

■ After a decade of choice, public schools in Central Harlem's District 5 have won back 6,000 of the 8,000 students they lost to private schools following the fiscal crises of the 1970s.

■ In Minnesota, although a handful of small districts have lost students and money since the advent of open enrollment, public-school budgets in 78 percent of the state's districts have either held stable or increased.

■ In Cambridge, since the start of public-school choice in 1981, the proportion of students leaving the public schools for the private sector has fallen from nearly 30 percent to 10 percent.

Competition's "False Promise"

Whether choice will achieve more than "doing no harm," however, is a proposition yet to be tested on a broad scale. So far, the evidence is mixed. On the plus side, studies of magnet schools almost always reveal higher test scores, greater student and teacher motivation, and higher graduation rates than in otherwise comparable neighborhood schools. In Cambridge, in the wake of choice, the percentage of students passing standard mathematics, reading, and writing tests leaped from 54 percent in 1984-85 to 87 percent in 1987-88, with the gap between white and minority youths continuing to close. In Minnesota's second-chance choice program, in which high-school dropouts are permitted to return to a different school than the one they left, graduation rates have more than doubled, and have shot up from 6 percent to 41 percent among the most troubled kids. And in

East Harlem, the most celebrated choice success story, the percentage of students reading at or above grade level climbed from 16 percent in the early 1970s to 68 percent by the late 1980s.

Critics of choice question these findings – asserting, for instance, that magnet schools and other choice schools often absorb a disproportionate share of a district's resources and that students who participate in such programs were already more ambitious and motivated than students who



stayed behind. But they reserve their main rhetorical fire for what they view as the false promise of competition.

Nowhere has the competition created by choice "ignited a revolution of school restructuring, parent engagement, and educational improvement as its proponents originally claimed," insists education historian Ann Bastian. She and other choice opponents point to early choice demonstrations, like Alum Rock and a tuition tax credits experiment in Minnesota, which yielded only marginal gains in achievement. Some of the more recent results are equally discouraging. The Carnegie report concluded that none of the 13 states with open enrollment "has yet demonstrated significant educational gains attributable to choice."

The Carnegie study offers one possible reason for competition's mixed report card: the fact that many parents choose a school for reasons other than its academic record. In studies in Arizona, Iowa, Milwaukee, and Minnesota, only one-sixth to one-third of families switched schools for largely academic reasons, with the majority naming proximity to home or work, school safety, or other non-academic factors. And most families don't choose at all. A survey of seven states with com-

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prehensive open-enrollment plans discovered that, in no state, had more than 2 percent of families exercised their option to choose another school.

THE EFFECTS OF COMPETITION

To proponents of choice, these data are incomplete at best and misleading at worst. A Heritage Foundation report argues that one of the explanations for low participation rates is that most choice plans restrict choices entirely to the public sector, where there are often few pronounced academic differences, reducing parents' incentive to choose. Moreover, almost all broad-based choice plans are relatively new, and participation levels typically rise with time. In the Alum Rock experiment, for instance, participation rates had doubled from 11 percent to 22 percent by the end of the program's third year. And in Cambridge, where controlled choice has been in force since 1981, fully two-thirds of families now select a non-neighborhood school.

Nor are parents' "non-academic" choices necessarily irrelevant to school quality. Factors like school safety, discipline, and special-program offerings, say choice advocates, are as valid – and as potentially effective – as means of competition as convenience and service quality are in the economy's commercial sector. And even where academic concerns aren't the main reason families select a school, advocates note, they're almost one of the top two or three.

But even if participation rates and academic interest were greater than this, respond choice opponents, it wouldn't make any difference. The problem, says AFT president Albert Shanker, is that competition just doesn't work in education. "A school district that loses students loses at most only the money it takes to educate those students," he explains. "Many large urban districts have been losing thousands of students over the years and [yet] . . . have done little to stem the tide."

The Brookings Institution's John Chubb, now head of the Edison Project's school-design team, agrees with Mr. Shanker – to a point – but says that when choice fails to show an impact it's usually because competition hasn't been allowed to work. The problem with most public-school-choice plans, he told *U.S. News & World Report* last year, is that bad schools are not permitted to close and good schools are really not permitted to enjoy the financial fruits of their success. Choice opponent Herbert Kohl concedes that this was a serious flaw in

the Alum Rock experiment. "A combination of teacher organizations and administrators," Mr. Kohl says, "made sure that no person or school – no matter how dismal – was evaluated or forced to change or declare itself out of business."

And yet, when school administrators listen to the voice of competition, choice advocates say, bad schools *do* close – or else dramatically improve themselves. In the first three years of East Harlem's choice program, for example, unpopularity forced three schools to shut down; they later reopened as successful "theme" schools. In Central Harlem, four schools have closed due to falling enrollment – "they were lousy schools," Supt. Bertrand Brown says. And Cambridge gave one poorly performing school a top-to-bottom overhaul; several years later, it was the district's top-rated school.

IS CHOICE WORTH THE RISK?

And so the debate goes on. It is impossible, in the brief space of this article, to capture all the complexities and variables involved in judging school choice. Enough studies and experiments have been conducted that advocates on both sides of the issue can find evidence to support their cause – or to refute any of the statements made above. Still, a few basic conclusions about school choice appear to be warranted:

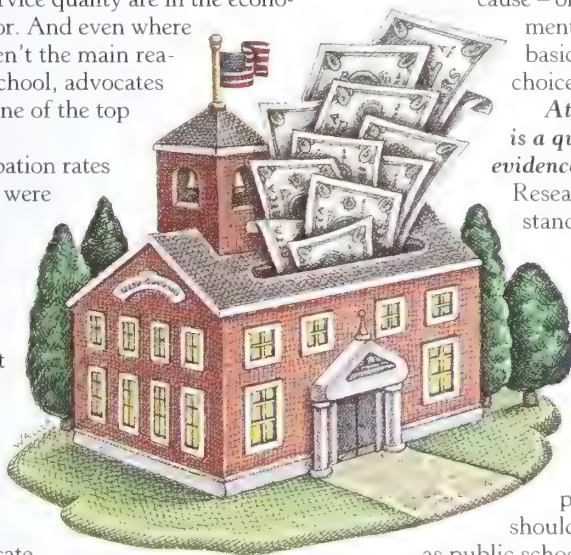
At its core, school choice is a question of ideology, not evidence.

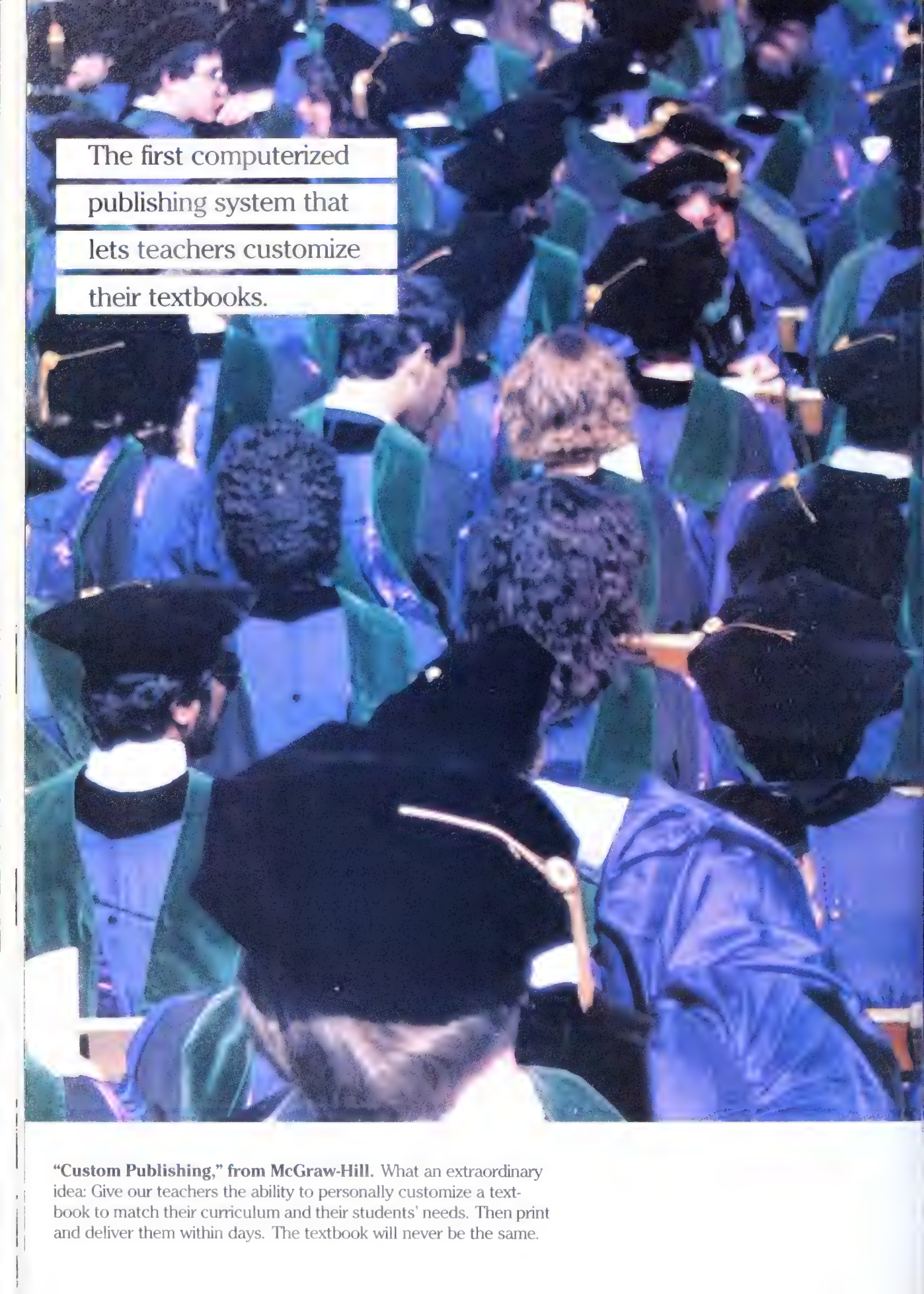
Researchers' hopes notwithstanding, neither more extensive studies nor new field experiments are to resolve two of the most pivotal issues in the choice debate: whether parents have the right to send their children to the schools they choose, and whether this right (and the public funds to go with it) should extend to private as well

as public schools. These are questions of opinion, not fact, and until our society reaches a consensus on them, the choice debate is apt to remain as murky and contentious as it is now.

Even the most effective choice plans won't solve all our education problems.

"There is little evidence that choice alone will renew the nation's schools," declared the Carnegie Foundation in its October broadside against choice. Unfortunately, it was an assault on a straw army. Aside from theoreticians John Chubb and Terry Moe, almost no choice advocate claims that "choice alone will renew the nation's schools." Most advocates go out of their way to emphasize that choice is no panacea for our education crisis, and must be part of a larger





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package of school reforms. The real—and as yet unanswered—question is whether choice is a necessary precondition for the kind of changes required to improve our nation's schools.

No matter how well designed they might be, all choice plans will help some families more than others.

No government program—including the neighborhood public schools—helps every user equally, and it's hypocritical for opponents to demand that school choice do so. Under choice, some families will make more active, better informed decisions than other families do, just as some families now make better decisions about jobs, housing, and medical care. We should go to great lengths to ensure that poor and minority families have an equal opportunity to avail themselves of new education options, but we shouldn't deny school choice to all Americans simply because some families may not be able or inclined to take full advantage of it.

Choice isn't a money-saver; an equitable, well-designed choice plan probably will require us to spend more rather than less money on education.

Public-school defenders rightly point out that school improvements can cost a lot of money—funds that haven't always been forthcoming in the past, in part due to the protests of the same people who support school choice. But while the competition produced by choice may force the public schools to cut the fat out of their administrative budgets, it won't entirely short-circuit the need to spend more on our most troubled schools. In fact, choice may impose significant new costs beyond those required for school improvements—for transportation and outreach campaigns, for instance—costs that must be met if choice plans are to be truly equitable.

Deciding what to do about choice inevitably involves a balancing of risks.

There are no warranties with regard to choice. On the one hand, if improperly or hastily implemented, choice could hurt the public schools, further isolate the poor, and in general reduce educational opportunities for those who already have the least. On the other hand, choice is hardly being grafted onto a flawless public-education system. As Hofstra University's Mary Ann Raywid observes, "the present system is [only] one of the alternatives for public schools. Thoughtful questioners . . . wonder just how much of it we would be willing to choose today, were we starting from ground zero." That's a useful reminder. In weighing choice and its potential risks, we need to compare choice plans not to some idealized system of public education, but to the public schools as they actually exist.

Doing nothing may be more dangerous than doing something—even if it isn't perfect.

Short of a miracle, the education crisis isn't going to go away any time soon. Neither, it seems, is the choice debate. In this light, attempting to sweep either under the rug of rhetoric and superficial reforms is apt to be an unwise option—for the

public-school system as well as its customers. It's worth heeding this admonition from former education journalist Edward B. Fiske, now a visiting scholar at Stanford University. "Unless political and educational leaders find ways to radically transform the way public schools do business . . . he says, "they will soon find themselves dealing with activists from both the right and left who are ready and willing to scrap the public school system" altogether.

An Honorable Service

America's system of neighborhood public schools has served this country and its children honorably for the better part of two centuries. No one can dispute the enormous contributions made by the "common schools" of this very uncommon nation. Public education has turned a populace that could barely read into the most technologically advanced civilization on earth, a mélange of diverse and conflicting cultures into a unified and united melting pot, an untested educational franchise into the cornerstone of democracy. We should not lightly challenge this most enduring of American social experiments.

At the same time—for our children's sake as much as our country's—neither can we long ignore the deepening crisis in our public schools. The Carnegie authors concede that "some schools are failing [and] some children are shockingly ill-served" by their neighborhood schools, but the problem goes far beyond a few poor-quality schools. Virtually the entire urban public education system is failing those young people who need its help the most—and matters are only getting worse.

Whether these difficulties arise mainly from unresponsive, top-heavy school bureaucracies or from the array of personal and family troubles that so many of these youngsters bring with them to school is still hard to tell. Nor can we say with any certainty how much, if anything, school choice might do to help cure these problems. But this much seems guaranteed: if the current choice debate produces but a little "more of the same"—a little more money, another round of traditional school reforms, a few more promises to do a better job—tomorrow's children are likely to be even less well-prepared for the challenges of the future than are the children of today.

For young people looking forward to rewarding and challenging careers, this failure will be their failure, a personal tragedy that will stalk them all the days of their lives. But for the nation as a whole, forced to do business in the supercompetitive markets of the 21st century, it will be more than this. It will be an academic suicide pact, a willing invitation to our own economic demise. ■

Writer Kevin Hopkins, adjunct senior fellow at the Hudson Institute, was the author of a previous Business Week education special advertising section, "Fighting For Our Future: Science and Math Education for the 21st Century."

BLOOM AMID NEW ENGLAND'S GLOOM

Low high-tech and R&D outfits are reawakening the economy

avaged by cutbacks in defense and computer manufacturing, New England's nightmare seemed as though it might never end. Since 1989, the region's six states have contributed one-third of all U.S. job losses. Its increase in business failures outstripped all other regions in both 1990 and 1991.

Losses in those industries continue: In the past few weeks, giant Digital Equipment Corp. is expected to add nearly 10,000 to the pile of layoffs.

But there's a surprising bloom among the gloom. Out of the ravages of recession, a fast-growing ivy of small software, communications, environmental, and biomedical companies is pulling New England out of its woe. Among many of the region's casualties and survivors are now-cheaper real estate vacated by fading businesses, and new high-tech companies are shaping a vital new economy—and are redefining the region's future. Massachusetts Institute of Technology researcher David Foray, an expert on technology in New England, predicts that it will be a niche economy [built on] research in advanced light manufacturing.

RAISING. Evidence of new vigor is starting to show up in the numbers. Over the past year, unemployment in New England has fallen, even while the nation's joblessness has grown (chart). Wages, reflecting demand for skilled workers, have risen faster than the national average for the past three years. The region's battered banks have improved their balance sheets a lot. And

the housing market is picking up: New housing permits are running as high as in the early 1980s, and their growth in 1992 should be among the strongest in the U.S.

Small startups—as well as big companies new to the region—are hiring skilled workers in droves. Apple, Hitachi, Mitsu-

\$1.4 billion in new equity since 1991.

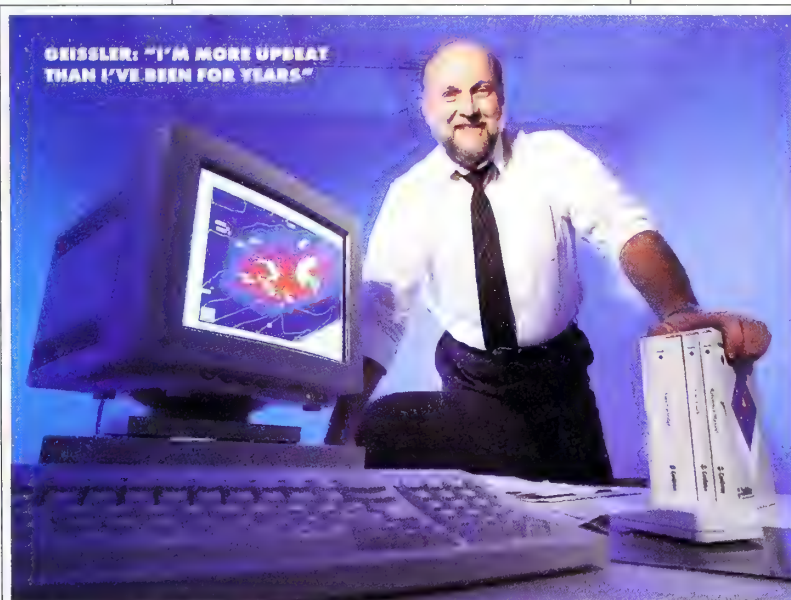
Even as the computer manufacturers have slimmed down, software companies have taken up much of the slack. The number of software and related jobs has kept rising through the recession. Robert F. Gurwitz, vice-president for engineering at environmental software startup ConSolve Inc. in Lexington, Mass., says: "The biggest problem for people in the industry is finding an interesting job, rather than finding a job."

Most of these software companies are hiring peoples who used to work at big manufacturers. Over the last decade, Gary H. Geissler, a 47-year-old sales manager, has job-hopped among such behemoths as Computervision, Data General, and McDonnell Douglas before joining tiny ConSolve, as one of 35 employees.

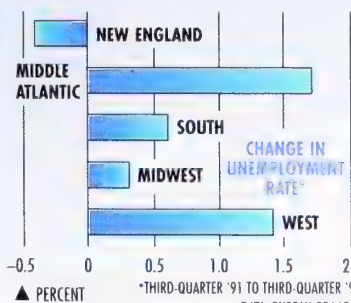
His outlook? "I'm more upbeat than I've been for years," he says.

BRAIN WORK. Skilled workers trimmed from once-huge computer maker Wang Laboratories Inc., now in Chapter 11, have been gobbed up by a host of high-tech startups. In New Hampshire, upstart network supplier Cabletron Systems Inc. has hired so many Wang workers that its employees now call it Wang North. Cytex Corp. in Marlboro, Mass., developed its first product, a machine that scans pap smears for cervical cancer, with the help of an imaging expert who used to work at Wang. And after 11 years in Wang's computer service business, Fritz Brown found a spot as a project manager at Corporate Software Inc., a fast-growing Canton (Mass.) PC software sales and training company.

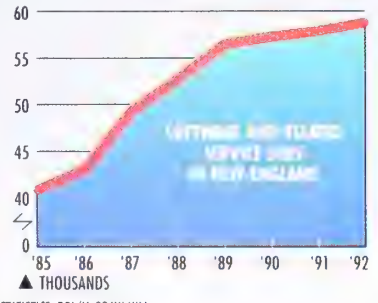
Its wealth of human capital is giving New England's transformation a strong start. New employers say the region's skilled work force, the most educated in the nation, offers a powerful inducement to locate there. "Already, I can show our development efficiency is better than in Japan," says Yoshihiko Kadowaki, the Hitachi Computer Products senior vice-president who manages the company's new Wal-



NEW ENGLAND'S JOB PICTURE BRIGHTENS...



...AS SOFTWARE COMPANIES KEEP HIRING



bishi Electric, and OKI Electric Industry have recently opened major software and basic research facilities. The same for drug companies: Germany's BASF Group and Japan's Eisai Co. have set up biotech and drug research centers. Biotech startups in New England are drawing huge amounts of capital: about

employers say the region's skilled work force, the most educated in the nation, offers a powerful inducement to locate there. "Already, I can show our development efficiency is better than in Japan," says Yoshihiko Kadowaki, the Hitachi Computer Products senior vice-president who manages the company's new Wal-

tham (Mass.) software development center. The center, which was set up to draw talent from the region's computer companies, has hired 70 people, mostly during the past year, and expects to add 30 more next year.

New England defense contractors are sharing their technical skill with both small and large companies. When medical startup PracSys Inc. sought software assistance for its first product, a novel medical scanner, it received offers of free help from defense contractors looking to give their programmers experience they could apply to commercial work. And over the past 15 months, Samuel H. Fuller, DEC's vice-president for research, has trekked three times to Lincoln Laboratory, a MIT-run defense research complex, for talks on joint projects. "In the 10 years prior, I'd never been there at all," says Fuller.

New England's venture-capital ties and top-notch universities are also giving its economy a boost. Venture Founders Corp. and Zero Stage Capital Co. are both beginning new funds for small startups—their first since 1989. And MIT's record of generating six new companies a year has not slowed since it began tracking spin-offs in 1986.

TOO SMART? There's even a silver lining to the New England office glut. Just ask Route 128 office-park magnate James L. McKeown. His West Cummings Park appeared headed for trouble after four big tenants vacated two of six buildings last year. McKeown trimmed rents, and that space and more was snapped up—by 55 different companies. The park's occupancy rate has rebounded, to 86% now from 77% in 1989. "We're seeing a lot of activity from medical labs, biotech labs, and R&D labs," says McKeown. "Space is less expensive, and the ideas are still there."

Some economists, however, worry that New England cannot fully regain the buoyancy of the 1980s with an economy driven mainly by R&D. "New England needs to guard against the intellectual arrogance that says: 'We're so smart, we'll recover with brain power,'" argues Paul E. Harrington, associate director at Northeastern University's Center for Labor Market Studies. Manufacturing jobs in defense and computers were the biggest source of growth in the 1980s. But with wages and housing costs still high, compared with other parts of the country, companies aren't locating their manufacturing operations in New England. That may put a real cap on future growth.

Still, the lesson of New England is one that the rest of the country can learn: A strong base in skills, knowledge, and innovation is the best bet for invigorating an ailing economy.

By Gary McWilliams in Boston

Marketing

BREWERS



MacDONOUGH WILL DIRECT STRATEGY AND TRY TO IMPROVE ADS—HIS STRONGEST SUIT

NOW, IT'S JACK MacDONOUGH TIME

The man behind Bud's market-share grab is out to revive Miller

Jack N. MacDonough was prepared for the worst when he walked into August A. Busch III's office in September. After all, what he was about to tell the chairman of Anheuser-Busch Cos. was tantamount to treason in the take-no-prisoners world of selling beer. MacDonough—the AB marketing veteran responsible for the legendary "This Bud's For You" campaign—had accepted the job of president and chief operating officer of archrival Miller Brewing Co. It was a safe bet, MacDonough knew, that AB's steely CEO would not take the news well.

As it turned out, the meeting with Busch was "very professional," MacDonough says. People close to the negotiations say Busch even tried to top Miller's offer to prevent MacDonough from fleeing the AB family. Family, of course, was precisely the problem, however. After 15 years at AB, it was increasingly clear that MacDonough's career path was blocked by the frothy rise of Busch's 28-year-old son, August A. Busch IV—now in charge of the Bud-

weiser brands and odds-on favorite for the top spot. As MacDonough joked with friends later, had the elder Busch asked "What'll it take to keep you?," MacDonough would have had only one reply: "Adopt me."

FRAYED RELATIONSHIP. MacDonough could end up wishing he had explored that option. The Miller he took over faces a world of problems. On Nov. 6, three weeks after announcing a 4% plunge in third-quarter earnings, to \$1 million—the brewer said it would lay off 400 production workers on top of a 10% cut in salaried employees. Beer shipments, too, hit the skids, sliding nearly 9% during the quarter in the biggest drop since 1983. The Lite brand, which represents about half of Miller's \$4 billion in sales, continues to lose ground in a bruising battle with Bud Light and Coors Light. And Miller's relationship with its wholesaler network has frayed badly, partly over charges that the brewer has forced distributors to take on too much inventory.

It is the fervent hope of Philip Mor-

os., Miller's parent, that MacDonough an revive the flailing brewer. He was apped for his marketing expertise, which was never the strong suit of his predecessor, Warren H. Dunn. An attorney who came up through Miller's legal department, Dunn remains CEO. But MacDonough will direct day-to-day operations. "Jack knows the innermost secrets of Anheuser-Busch," laments Michael J. Lamonica Sr., a former Anheuser executive who is now an AB wholesaler. "That's why he's such a valuable commodity." Anheuser-Busch officials could not comment for this story.

Before MacDonough took over Anheuser's international marketing in early 1991, he ran marketing for AB's core U.S. beer unit. He served on the elite committee that sets overall strategy for the brewer and was widely considered one of AB's smartest executives. During the 1980s, a period when AB sealed its industry dominance, MacDonough was one of the generals. He helped to design the much-lauded strategy of flooding local markets with promotions ranging from Bud-sponsored chili cook-offs to sponsorships of professional sports teams.

The question is whether he can stop AB's relentless advance now that he says for the other side. In the past decade, Miller's market share has stayed flat at 22%, while Anheuser has advanced sharply, from 33% to about 46% (chart). With twice the size, Anheuser has twice the efficiency in everything from production to advertising. MacDonough insists he has a promise from Philip Morris that he will be given the resources to compete. It seems doubtful Philip Morris' commitment.

"Miller is in deep trouble," says industry consultant Robert S. Weinberg. "The old card is how tight with the pencil Philip Morris will be."

A native Midwesterner, MacDonough is a young recruit to marketing. His father, who spent his early years working as a vaudeville comedian, headed predecessor of Chicago's Tatham EURO CG ad agency. After earning an MBA at Stanford University, MacDonough became a marketing manager for General Mills Inc. In the mid-1970s, he scored his first big coup when he introduced the nation to granola bars.

In 1977, he jumped ship to join AB just as the beer wars were escalating.

MacDonough stood out among a group of young turks and was soon promoted to manage the aging Budweiser brand. His two-pronged strategy: While "This Bud's For You" targeted Bud's core blue-collar crowd, MacDonough also went after younger drinkers with offbeat ads on shows such as *Saturday Night Live*.

THRILL-SEEKER. He also fostered an ultra-aggressive style that became known in the industry as guerrilla marketing. When the now-defunct Jos. Schlitz Brewing Co. won sponsorship of the 1980 Olympics in New York's Lake Placid, for instance, MacDonough took the offensive. For two months before the games, he ran Budweiser ads featuring the U.S. bobsled team, making it seem as if AB were the Olympic sponsor. The ads were a hit for both AB and MacDonough, who at one point hopped a ride on the team's bobsled. "I'm probably the only person at Lake Placid ever to go down the run in a suit," he jokes.

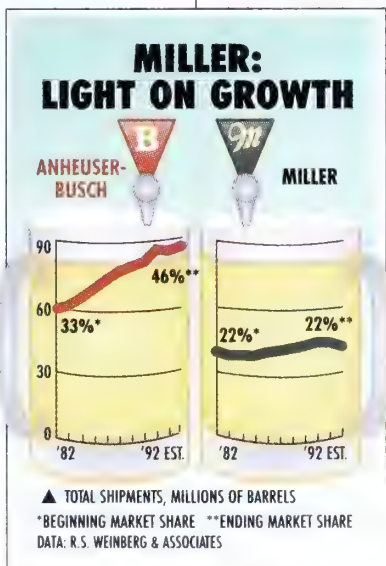
The truth is, MacDonough is a thrill-seeker at heart. During the late 1970s, before he married his current wife and had a son, he toolled around St. Louis in a shiny Lotus and frequented the city's club scene. Bar owner Paul Runyon, an old friend, says: "He had the first hot tub I ever saw." MacDonough has mellowed, but the lanky exec still entertains himself by flying stunts in an acrobatic airplane.

He'll need some quick maneuvers at Miller—especially when it comes to Lite. Competition among low-calorie beers has knocked 5% off Lite's share since 1990. And poor advertising—including Leo Burnett Co.'s widely derided slogan, "It's It. And That's That"—hasn't helped. MacDonough insists he won't dump

Burnett, which won the \$100 million Lite account last year. But the troublesome situation will test what many say is his biggest strength: inspiring agencies to excel. "He's able to communicate strategic thinking to creative people and bring the advertising to life," says Ron Bess of Bayer Bess Vanderwarker.

Needless to say, MacDonough is on the spot. He jokes that jumping from Anheuser to Miller may not be "as risky as bobsledding or acrobatic flying." But if the beer wars intensify, Miller's new president may recognize the sensation. It might feel something like skidding along ice at 60 miles an hour.

By Julia Flynn in Chicago



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An Industry Re



Ted Waitt (left), founder and president of Gateway 2000, believes in running his high-tech business the old-fashioned way, with the western friendliness you find in places like this cafe in Spiro, South Dakota - population 14 - located just a few miles from Gateway's offices.

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FRANCIS COPPOLA MAY BE SWEATING BLOOD NO MORE

Megahit *Dracula* could fix his finances—and help overcome a reputation for making costly bombs

San Francisco novelist and screenwriter Diane Johnson sums up Francis Ford Coppola's mercurial style with a single phrase: "He needs his downtime." It's no surprise, then, that the day after the Mann's Chinese Theater premiere of his latest film, *Bram Stoker's Dracula*, Coppola hid himself away in a tiny house in the hills overlooking Los Angeles. He was babysitting for his granddaughter, Gia. "It is not easy being me," he sighs, reflecting on the violent ups and downs his career has taken. "I have been fighting expectations all my life, and that's a game you can never win."

For Coppola, one of Hollywood's most gifted—and controversial—directors, the hardest part of life is business. Business is always getting in the way of art. More than 20 years ago, he turned up his nose at the Hollywood Establishment and retreated up the coast to San Francisco to launch an independent studio called Zoetrope Productions. Three bankruptcy filings later, he's only now recovering. Coppola has won five Academy Awards. His *Godfather* series and *Apocalypse Now* rank among America's finest films. But to those who finance movies, his legacy is much more prosaic: It's not easy being one of Francis Ford Coppola's lenders.

'HEART' FAILURE. Could *Dracula* prove Coppola's savior? With sales of \$54 million in the first 10 days of its release, the blood-soaked vampire flick seems assured of becoming Coppola's first \$100 million blockbuster since *The Godfather* collected \$133.7 million in 1972 (tables). Better yet, Coppola's deal with Sony Corp.'s Columbia Pictures Entertainment Inc. unit pays him a \$5 million director's fee and gives him roughly 10% of whatever the studio grosses on the film and related merchandising. For the 53-year-old Coppola, the windfall would not only help fix his finances. It would also help a reputation snowed under during the 1980s by a blizzard of over-budget films and box-office flops.

In truth, Coppola has been battling a storm ever since 1979, when his controversial film *Apocalypse Now* ran \$15 million over its original \$16 million bud-

get. It was the beginning of the end for Zoetrope. Following his *Godfather* success, Coppola had started Zoetrope to fulfill a long-standing dream of creating another RKO Pictures Inc., which in the 1940s was a haven for young, avant-garde filmmakers such as Orson Welles. He wanted an environment where such independent-minded films as *Apocalypse* could be made. Coppola sunk \$16 million of his own into the surrealistic Vietnam epic and it won much critical acclaim. But while it ultimately made money, it branded Coppola as difficult, obsessive, and unable to adhere to a budget.

His follow-up effort, *One From the Heart*, didn't help. The musical disaster ran millions over an already inflated budget (Coppola borrowed some \$30 million to finance it), and in the end it pulled just \$636,000 at the box office. Smaller-budget films such as *Rumble Fish* and *The Outsiders* were also flops. Then came *The Cotton Club*, a \$50 million movie that Coppola didn't finance, but that lost lots of money. During the film, Coppola feuded with the producer and would communicate with him only through written notes.

The string of money-losers led Coppola to the brink of financial collapse in 1983. He owed some \$35 million without any hope of paying it back. To his rescue came his friend and sometime co-

producer Frederick R. Roos, who bought a \$31 million Coppola note from Chase Manhattan Bank for \$5 million. Roos was a friendlier creditor than Chase, but Coppola still had to abandon his dreams of independence. He was forced to sell at auction a 10-acre Hollywood lot that was to have been the new RKO. Ironically, to pay his debts, Coppola became something of a hired gun, making movies for the Hollywood studios he had so long tried to escape. He started churning out workmanlike films such as *Gardens of Stone* and *Peggy Sue Got Married*, and even directed a 17-minute 3-D film for Walt Disney Co. called *Captain EO* starring Michael Jackson. "It would have been easy to liquidate and start over," recalls Coppola of that period, "but I couldn't."

It was a humiliating time. Born in Detroit and raised in Great Neck, N.Y., Coppola was brought up valuing aesthetics, not dollar signs. His father was a flutist and composer, his mother an actress. Stricken with polio at age nine, Francis spent a year bedridden, developing a love for storytelling by playing with puppets and watching hours of TV. In 1957, he entered Hofstra University hoping to become a playwright, but after seeing Sergei Eisenstein's epic *Ten Days That Shook The World*, he fell for film and switched to the University of California at Los Angeles film school.

Coppola cut his teeth in Hollywood

COPPOLA'S WINNERS...



YEAR	TITLE	GROSS RECEIPTS MILLIONS OF DOLLARS
'72	THE GODFATHER	\$133.7
'74	THE GODFATHER, PART II	47.5
'79	APOCALYPSE NOW	71.6
'86	PEGGY SUE GOT MARRIED	41.4
'90	THE GODFATHER, PART III	66.7

working with Roger Corman, the king of B movies. After turning out such forgettable films as *The Bellboy* and the *Baywatch* girls and *You're a Big Boy Now*, he got the big time by winning an Academy Award for his screenplay of *Patton* in 1970. Two years later, he directed *The Godfather, Part II*, which like *The Godfather, Part I* in 1974, won a Best Picture Oscar. Together, the two films earned a staggering \$800 million worldwide.

On the set, however, Coppola became known as eccentric and obsessed with perfection. For *One From The Heart*, he ordered built a \$6 million re-creation of the Las Vegas strip that required 5,000 light bulbs, 10 miles of neon, and a paved intersection. Fascinated with electronic editing, Coppola would spend most of his time in a 20-foot trailer dubbed "the Silver Fish," which was jammed with high-tech editing equipment. Always the temperamental artist, he bristled when Paramount Pictures Corp. ordered him to rush delivery of 1990's *The Godfather, Part III*. "They had problems with their stock price, or earnings, or something," sniffs Coppola.

"You can't make a movie like you make an episode of *I Love Lucy*."

That same year, Zoetrope's finances finally fell apart. Between 1990 and 1992, the company filed three separate Chapter 11 petitions to restructure debts stretching back to *One From The Heart*. When the dust had cleared, Coppola had paid \$8 million to a Canadian land developer named Jack Singer. He paid claims to others worth \$9.5 million. And he'd given 15% of Zoetrope (which has the rights to *Apocalypse*) to his friend Roos, whose Chase note had swollen to a claim of \$71 million including the interest. The money to pay the debts came largely from his *Godfather, Part III* earnings and his directing fee from *Dracula*.

Whether Coppola has learned to tone himself down is an open question. *Dracula* certainly had its Coppola-esque moments. Six weeks before shooting, the director fired his set designer. Negative reaction from test audiences this summer forced him to make major editing changes before the film could be released. Worse yet, early reviews were lukewarm, and Hollywood insiders were

whispering that the film would be a megadud. Only two weeks before releasing *Dracula*, Coppola was still tinkering in the editing room, giving everybody involved heartburn.

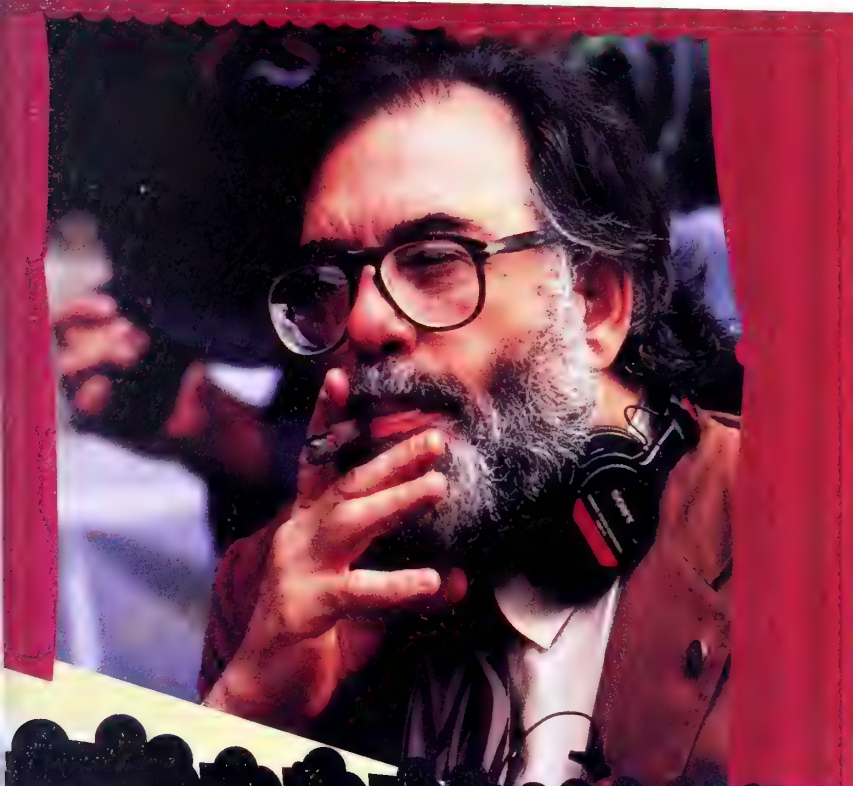
But Columbia executives were ultimately happy. They expected some excess and tried to control the damage by insisting that he shoot the entire movie on the same soundstage that houses the swimming pool where Esther Williams did many of her swim scenes. He filled in Williams' pool with dirt and imported thousands of bushes to create an ornate English garden. By Coppola's standards, the production was cheap. But the film still went \$6 million over its original budget, as the director spent lavishly on costumes and effects. "He's a great, great artist," says longtime friend and Columbia Marketing President Sid Ganis. "But he can drive you crazy."

TUCKER'D OUT. *Dracula's* success means Coppola can relax for a while. His bankrupt restructuring has allowed him to keep many of his assets, which include a 1,500-acre winery in Napa Valley, several apartment buildings in Los Angeles, and a resort in Belize. These days, however, he has installed professionals to run his properties for him. That leaves him free to tool around in one of his two 1940s-era Tucker automobiles, to indulge his love of cooking, or to hang out in San Francisco's nightclubs and theaters.

Down the road, Coppola still wants to run his own studio. But for now, he seems content to play the Hollywood game. His deal with Columbia means that American Zoetrope, a new entity started by Coppola, is essentially a contractor. The Sony unit gets first refusal on all of Coppola's films and provides the filmmaker with office space and staff. American Zoetrope has more than a dozen projects in development, and Coppola has hired superagent Michael Ovitz to sniff out new deals for him. This spring, Warner Brothers Inc. will release *The Secret Garden*, a screen adaptation of the Frances Hodgson Burnett novel. And Coppola is producing an updated version of *Frankenstein* for Columbia's sister company Tri-Star Pictures Inc. Also in the works is a film about the race among doctors to find a cure for AIDS.

A few more successes and Coppola says he'll consider taking another crack at his RKO dream. But this time he'll take on partners. "The first time around, I didn't think I needed businessmen, that I knew all there was to know about my business," he says. "What I didn't realize is that you need a cushion of some money when you go through the lean times. And there are always some lean times." Nobody knows that better than Coppola—and his lenders.

By Ronald Grover in Los Angeles, with Richard Brandt in San Francisco



AND HIS LOSERS



YEAR	TITLE	GROSS RECEIPTS* MILLIONS OF DOLLARS
'82	ONE FROM THE HEART	\$0.636
'83	RUMBLE FISH	2.5
'84	THE COTTON CLUB	25.8
'87	GARDENS OF STONE	5.2
'88	TUCKER: THE MAN AND HIS DREAM	19.6

*U.S. BOX OFFICE

WHEN LAYOFFS ALONE DON'T TURN THE TIDE

Companies find dumping employees is no substitute for growth—and may hurt in the long run

Picture this: Eastman Kodak Co., intent on improving its lagging profitability, undergoes a major restructuring. Then, the photography giant does it again, and again, and again—all told, five times since 1985, costing \$2.1 billion and more than 12,000 jobs. And here's what all that pain got Kodak: halved profit margins, a lackluster stock price, and a bottom line not much larger than it was a decade ago.

Unfortunately, Kodak's results are hardly unique. A growing number of corporations have embarked on massive restructurings in recent years only to find that the expected earnings benefits are far more elusive than they imagined. A recent American Management Assn. survey of 547 companies that downsized within the past six years found that operating profits improved for only 43.5%. "Downsizing doesn't have the effect on the bottom line that is hoped for medium- and long-term," says AMA Research Director Eric Greenberg.

FEWER RESOURCES. True, by definition, restructuring companies are troubled. Some companies "might have been in far worse shape or not existent today," if they hadn't done something, concedes consultant John Parkinson of Wyatt Co. Still, after a downsizing binge that has seen more than 3.5 million workers lose their jobs since 1987, consultants, analysts, and even some managers don't see layoffs as a panacea for corporate ills. While staff cuts may hold the line or prevent



worse hemorrhaging, they don't produce revenue growth—which comes only from more constructive strategies, such as developing new products, entering new markets, or taking business away from competitors.

What's more, some economists worry that Corporate America's addiction to

layoffs may leave many companies unprepared for a recovery. "If demand does pick up, many companies are going to lose market share if they don't invest in more people and inventory," says economist Mark Zandi of Regional Financial Associates, an economic consulting firm based in West Chester, Pa.

Consider Zenith Electronics Corp., clobbered for years by cheap foreign-made televisions. The Glenview (Ill.) consumer-electronics company has halved its payroll since 1985, to 6,200. Another 400 workers will be let go before January. But analysts say that the chronic downsizing has now left Zenith without the manufacturing wherewithal to meet demand for its hot new product: the flat computer screen. It sells to Compaq Computer Corp. and Groupe Bull. A spokesman for the company concedes that Zenith has "cumulative backlogs" it hopes to reduce in coming months.

BRIEF GAINS. Of course layoffs are sometimes unavoidable. That was the case at Unisys Corp., which undertook a massive restructuring in 1986. As the computer industry turned away from

mainframes toward personal computers, Unisys—the unhappy union of computer companies Sperry and Burroughs—narrowed its market to big-time users of information systems, such as airline-reservation operations. To match its smaller market, Unisys halved its work force to 56,000. But the restructuring has paid off. Unisys has had four quarters in the black after three years of losses.

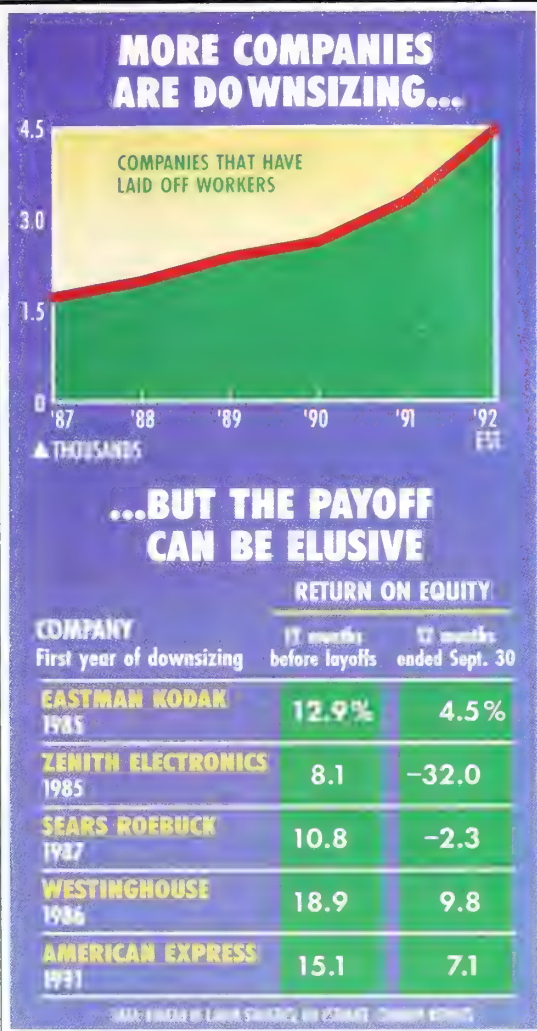
still, all too often downsizing is a knee-jerk reaction by management in hard times. When profits slide, the pressure to quell investor discontent with decisive action may be overwhelming. "It shows some demonstrated action of taking charge. In the U.S., taking charge means something dramatic, and dramatic means laying people off and cutting costs," says T. Quinn Spitzer, president of Kepner-Tregoe Inc., a management consulting firm. And with so many companies announcing bold cost-cutting programs, few managers want to be seen doing nothing. There's a certain lemming-like quality to some of the things that sweep through management," says management consultant Thomas Wallace.

There are clearly some immediate benefits to cutting staff. Wall Street, for one, loves restructuring, and it frequently rewards downsizing with higher stock prices. Kodak's June, 1991, announcement of 900 layoffs, for example, was met with an 8% jump in its stock price. And restructuring can produce some short-term earnings improvements. Profits at the 900 companies listed in *BUSINESS WEEK's* Corporate Scorecard rose 31% in the third quarter, largely because of cost reductions, including staff cuts. Sales rose only by a modest 6%.

As long as sales growth remains weak, companies that turn to layoffs without pursuing more substantial strategies may be forced to lay off more employees in the future to buttress margins. Indeed, the AMA predicts that 63% of all companies that downsized this year will do so again in 1992. All too often, however, the gains in layoffs are temporary. A Wyndham survey of more than 1,000 companies last year found that restructurings failed to produce the expected savings 64% of the time. How come? Companies typically replace cut staff within a few years and then repeat the cycle all over again.

APPOINTMENT. That's exactly what happened at Chrysler Corp. By the time the previous recession was winding down in 1982, the auto maker had trimmed its white-collar payroll from 20,000 to 21,000. But by 1987, the salary work force was up to 27,000. Chrysler's chief financial officer, Jerry B. S., blames lack of oversight at headquarters. As car sales picked up and the company's fortunes improved, individual managers acted independently and hired people as they needed them. When you do that 200 or 300 times, pretty soon it adds up to serious money, New York says.

And even if layoffs produce quick savings, there's no substantial evidence that



cuts improve profits in the long term (table). Sears, Roebuck & Co. has shown the gate to 48,000 employees during the past two years. But its earnings remain woefully disappointing. Overall, the corporation's 12-month return on equity has slumped to a negative 2.3%, compared with almost 11% five years ago.

Why have so many downsizings been such dismal disappointments? Perhaps it's because some companies turn to layoffs when they're unable to solve fundamental problems. In Kodak's case, the company is firmly established in businesses such as film and cameras that aren't growing much. And efforts to diversify, such as Kodak's acquisition of Sterling Drug, have yet to pay off. "The problem is strategy, but they're addressing the symptom of cost structure," says Prudential Securities Inc. analyst B.

'In the U.S., taking charge means something dramatic, and dramatic is laying people off and cutting costs'

Alex Henderson. "It's a temporary salve." Kodak argues that its restructurings were strategic responses to changing technologies. Now, after pouring more than \$4 billion into research and development over the past three years, it is launching new products such as its Photo CD system, which will allow people to look at their photographs on TV sets equipped with Kodak-brand players. And on Nov. 23, Kodak said it would sell three units as part of its plan to focus on its core businesses.

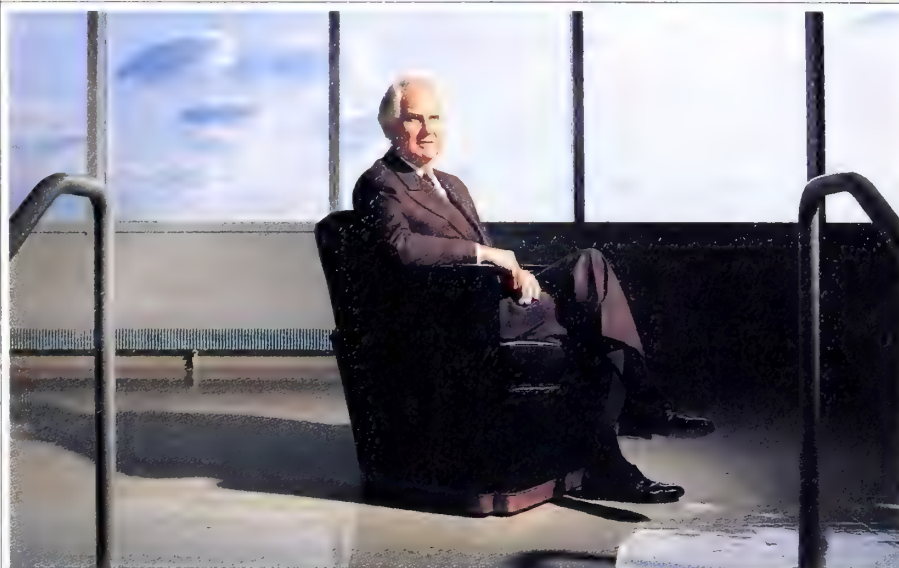
Sears, too, has struggled with basic business woes—challenges from discounters such as Wal-Mart Stores Inc. or such niche retailers as The Gap. Says analyst Edward A. Weller of Montgomery Securities: "Layoffs haven't made them competitive. They're not responding to what customers want now."

HUMAN ASSETS. Worse, some downsizing companies make their more profitable units pay for weaknesses in other divisions. Westinghouse Electric Corp. has been cutting costs in response to chronic problems at its finance subsidiary, Westinghouse Credit Corp. Since the start of 1991, Westinghouse has laid off 6,800 employees, 6% of its work force. The cuts have even affected healthy divisions, such as Westinghouse Electronic Systems Group, which has lost 4,600 employees in the past two years. To bail itself out, Westinghouse announced on Nov. 23 that it will sell off several other profitable divisions, in addition to liquidating parts of the credit unit's portfolio.

Given the poor record for downsizing, some companies have decided that it might not be such a good idea. When business lags at one of Minnesota Mining & Manufacturing Co.'s 49 divisions, for example, excess workers are found similar work at another division. Over the past decade, 3M has reassigned about 3,500 workers this way, failing to place only a "handful," says Richard A. Lidstad, vice-president of human resources. "Our employees are corporate assets, not assets of a given business. It's like production machinery. In a downturn, you don't just throw it out." And what do you know? 3M's earnings were up 14% in the third quarter.

Not every company is likely to follow 3M's example. But there's growing evidence that executives should stop using layoffs as a remedy of first resort. "They're definitely not thinking of their staffs as an asset," says consultant Wallace. "They are commodities to be dispensed with. God, that's 1910 thinking." All too often, that's 1992 thinking, too.

By Elizabeth Lesly and Larry Light in New York, with bureau reports



THANKS TO THE FRENCH PARENT, CEO CAWTHORN CAN NOW POUR \$500 MILLION INTO R&D

WHAT A DIFFERENCE A MERGER MAKES

Joining Rhône-Poulenc has Rorer close to drugmaking's big time

Robert E. Cawthorn was thrilled in 1990, when the French chemical titan Rhône-Poulenc bought his pharmaceutical company, Rorer Group Inc. At the time, Rorer was something of an also-ran. It fielded no major drugs and was best known for its aging over-the-counter antacid, Maalox. Cawthorn, who had been Rorer's chief executive for five years, was betting that the merger could enliven the sleepy suburban Philadelphia company.

Two years later, the merger has accomplished that and then some. Cawthorn, now CEO of the rechristened Rhône-Poulenc Rorer Inc., heads one of the best-performing drugmakers in the U.S. Net profits are expected to rise by 28% this year, to \$418 million, with sales expected to hit \$4.2 billion, up 9.5% from 1991, according to Goldman, Sachs & Co. Looking ahead, many analysts expect RPR's profits to rise by over 20% a year through 1996.

To ensure continued growth in the latter part of the decade, Cawthorn has tapped his parent company's vast coffers, pouring some \$500 million into drug research and development this year alone. That's a far cry from the \$18 million Rorer Group spent in

1985, three years after Cawthorn joined the company. The goal: to produce a new generation of drugs that could propel RPR into the big leagues with pharmaceutical giants such as Merck & Co. (table). The British-born Cawthorn, 57, now says that RPR will be "the world's best drug company" by the year 2000.

That may sound boastful, but Cawthorn can be forgiven some enthusiasm. By combining Rhône-Poulenc's pharmaceutical division with Rorer's, RPR now has a truly global business, with only about 22% of its sales coming from the U.S. And the consolidation has produced some cost savings. Selling off five European plants helped reduce the company's payroll by 4%, to 22,500 employees.

Of course, the merger with Rhône-

Poulenc, which now owns 68% of RPR stock, hasn't been totally seamless. To accommodate his new partners, Cawthorn named two presidents—one French and one American—and split worldwide responsibilities between them. Still, some tensions exist. Jean-Jacques Bertrand, the French president, complains that Americans set lofty goals and that sometimes fall short. For his part, Randy H. "Randy" Thurman, who heads U.S. operations, says he has had to learn to accept the Gallic penchant for time-consuming analysis.

But bridging the cultural gaps is nothing compared to the task of turning out enough novel medicines to maintain RPR's growth. RPR still doesn't have any megadrugs to drive sales in the future. Maalox, with annual sales of \$245 million, remains the company's top seller.

Cawthorn is betting on some important research breakthroughs to expand his product line. He has told his researchers to focus on such niche markets as respiratory diseases, AIDS, and central-nervous-system disorders, including Alzheimer's. He has also bolstered RPR's R&D efforts by signing on some impressive talent. For instance, to develop an AIDS vaccine, his scientists are working with California-based Immune Response Corp. and its adviser, Dr. Jonas Salk, discoverer of the polio vaccine.

SLOW START. But while analysts are impressed with Cawthorn's bold plan, many still question whether RPR can produce the winners it needs. Many of RPR's potential big sellers face stiff competition. Consider RPR's forthcoming Taxol. Analysts say the drug, which was first developed by Rhône-Poulenc in the mid-1980s to treat ovarian cancer, is RPR's most promising new product. But it still faces a couple of more years of tests before it can hope to receive approval either in France or from the Food & Drug Administration. Meantime, Bristol-Myers Squibb Co. is expected to launch a rival drug, Taxol, within months. On Nov. 16, an FDA advisory panel recommended approval of Taxol.

Still, Cawthorn is racing ahead with his strategy to transform RPR, which

now ranks 14th in sales, into one of the world's top five pharmaceutical purveyors. "I've never been one to be too worried about taking on a new challenge," he says. Cawthorn will need that kind of nerve—and some new wonder drugs—to keep up RPR's momentum and prevent his company from ever again being labeled an "also-ran."

By Joseph Weber in Collegeville, Pa., with Charles Hoots in Courbevoie, France

RORER'S BRIMMING PIPELINE

Drug	Description	Expected U.S. launch date	Projected sales* Millions of dollars
MENOREST	Estrogen patch for women with osteoporosis	1995	\$200
TAXOTERE	Intravenous solution to treat ovarian cancer	1995-96	300
LTD4	Asthma treatment	1997	480
SYNERCID	Staphylococcus antibiotic	1997	300

*Annual sales after five years

DATA: COMPANY REPORTS; GOLDMAN, SACHS & CO.

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Continental Bank

Anticipating the needs of business.™

Insurance crisis? Not at Hank Greenberg's American International Group

MR. RISK



As photographers clicked away on a sunny October day, a smiling Hank Greenberg stood in the Kremlin savoring his latest triumph, the formation of the Russian-American Investment Bank. The deal capped more than a year of secret negotiations and, since June alone, five flights to Moscow in his sparkling-white Gulfstream IV. Now, the chairman of American International Group Inc. was cordially shaking hands with Russian President Boris N. Yeltsin, sealing the agreement. In keeping with Moscow's austere mood, Greenberg recalls, Yeltsin didn't even offer a toast. "We should have one," the Russian leader joked. "But we don't have any vodka here."

The new bank, a ground-breaking venture, joins Greenberg's insurance giant with a coalition of military-industrial power players led by Yeltsin's national security chief, Yuri Skokov. The new partnership plans to channel Western investment into the cash-starved Russian energy and real estate industries. "It's

as good a group as any," says Greenberg. "It will be a bridge."

Someone else making that claim might be greeted with skepticism, or worse. But not Maurice Raymond Greenberg, the Catskills-bred farm boy-turned-billionaire. In his 24 years as CEO, Greenberg has successfully networked and dickered with democrats and commissars and made AIG a force to be reckoned with in 130 countries. The onetime *enfant terrible* of the insurance business is now 67, but he has yet to slow down, name a successor, or show any other sign of wanting to retire. "It hasn't crossed my mind yet," he says.

Hank Greenberg—long ago he acquired the nickname of the renowned Detroit Tigers slugger—is only the second man to run AIG since Cornelius Vander Starr, who once owned an ice-cream parlor in California, moved to Shanghai and, in 1919, began selling insurance to

its citizens.

As outspoken as Starr was retiring, Greenberg is a tightly wired-in boss who a hirs surprises and, insiders say, often in on the latest office gossip in Bangkok or Boston even before local managers catch wind of it. Demanding, profane and often intimidating, he's now moving at a more breakneck clip than ever.

SWAP SHOP. AIG has a lot more going than just Russian deals. Greenberg fundamentally remaking the creature helped create. Just as he once pushed, pulled, and molded AIG into the nation's largest commercial property and casualty insurance group, Greenberg is now creating what Salomon Brothers Inc.

st A. Michael Frinquelli calls "a global financial-services growth company." is moving into everything from aircraft leasing to trading foreign currencies and interest-rate swaps—complex trading instruments that permit financial institutions to exchange interest payments. Swaps are now one of the fastest-growing areas on world money markets.

Unlike many CEOs, who restructure only when times are tough and profits sagging, Greenberg, whose company has \$83 billion in assets, is refashioning AIG from a position of strength. AIG is the most international of any of its competitors, with half its profits coming from lucrative franchises overseas. AIG, for example, dominates the life insurance business in many of Asia's fast-growing economies, from Thailand to South Korea. In Japan, where it pioneered U.S.-style auto and life insurance in 1966, AIG remains the leading foreign insurer of any sort.

Greenberg's global reach and diversification push are giving AIG's earnings a boost just when many U.S. insurers have been battered by 1992's spate of disastrous weather. Although AIG, too, has been hit, suffering \$100 million in property-damage claims from Typhoon Omar and hurricanes Andrew and Iniki, it has been shielded by the cash life-insurance and finance divisions continue to churn out.

Financial services alone accounted for 22% of AIG's pretax profits in the third quarter, up from next to nothing only a few years ago. That's one reason why analysts estimate AIG will still earn a record \$1.6 billion in 1992, on revenues of about \$18 billion, despite the storms (charts). Such expectations are keeping AIG's shares in the stratosphere. They have soared recently to an all-time high of \$114, a dizzying 3,740% climb since Greenberg took the company public in 1969.

AN GUERRILLA. Greenberg's quest for diversification has taken AIG into a flurry of deals. In 1990, he shelled out \$1.26 billion in cash and stock to buy the world's premier aircraft-leasing group, International Lease Finance Corp. (page 109). Greenberg is moving into new insurance ventures, too. Take consumer auto coverage in the

U.S. A huge market, it has never been a major AIG line. Then, earlier this year, Greenberg spent \$27 million for 20% of the Robert Plan Corp., a gutsy Lynbrook (N.Y.) auto insurer that uses sophisticated computer data bases and dogged attacks on scam artists to rack up high profits in inner cities.

An even bigger move in life insurance could also be in the offing. Last year, Greenberg took a stab at expanding his modest U.S. life business by studying a possible takeover of the then-troubled Equitable Cos., which later was sold to France's Groupe Axa for \$1 billion. With the U.S. accounting for 40% of the world's life insurance business, Greenberg has continued to sniff around, examining Mutual Life Insurance Co. of New York, the failed Mutual Benefit Life Insurance Co., and others.

These excursions are a sharp departure from AIG's core property and casualty business, which Greenberg built up in typically unconventional fashion. Greenberg has earned a global reputation as a one-man Lloyd's of London who will, says analyst Frinquelli, "take

on some of the grungiest risks around." Whether it's kidnap insurance for a multinational manufacturer's CEO, liability coverage for a trash dump in Ohio, or a policy on a high-tension power pylon or an oil rig in the North Sea, Greenberg always seems to be on the spot with a custom-tailored solution. Says Paul K. Sprague, the U.S. insurance director for Swiss chemical and pharmaceutical maker Ciba-Geigy Ltd.: "AIG is one of the few groups you can go to and say, 'Let's cut a deal.'"

PUT-DOWNS. This is the key to AIG's enviable ability to make money. In targeting high-risk markets, often in high-risk areas of the world other insurers shy away from, Greenberg is able to collect lucrative premiums. Also crucial to AIG's bottom line is Greenberg's obsessive attention to costs. The company's expense ratio—the amount of every premium dollar consumed by overhead—is a mere 21%, five points below the U.S. industry average. That gives Greenberg the leeway to undercut less efficient competitors and still earn a hefty profit.

Such deep-pocketed competitors as America's Chubb and CIGNA, Switzerland's Zurich Insurance, and Germany's Allianz assiduously attempt to emulate AIG's formula. But Greenberg, whose put-downs of colleagues, competitors, regulators, and even customers have become an industry legend, remains unimpressed. "Chubb?" he says. "They don't break down their foreign earnings because they don't have any. They all want to do what we're doing. But no other underwriter in the world comes remotely close."

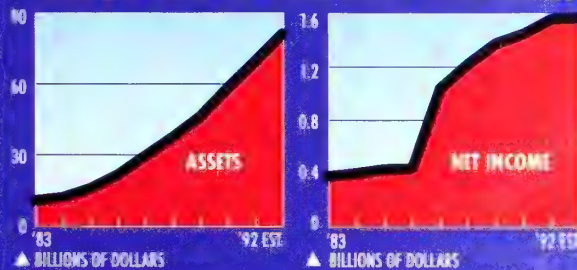
Then why is Greenberg so anxious to move AIG beyond writing property and casualty business? Long a highly cyclical field, commercial insurance is now under pressure from price-cutting, soaring health-care and workers' compensation outlays, and, potentially, hundreds of billions of dollars' worth of claims to pay for the cleanup of hazardous waste sites. Says Greenberg with a shrug: "You've got to evolve."

In entering new markets, however, Greenberg may be facing risks as exotic as any he has confronted in the 30 years since he left a fast-track career at Continental Casualty Corp. to start an overseas health and accident business for the then-tiny AIG. But he may have little

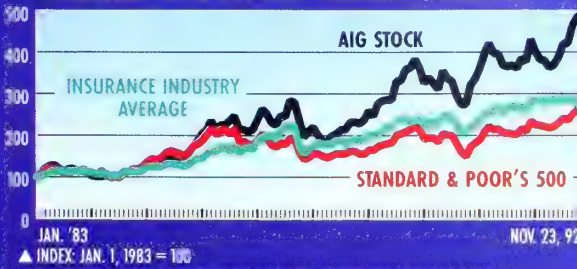
STORMS AND QUAKE ARE PUMMELING INSURERS...



...BUT AIG IS SURGING AHEAD...



...AND WOWING WALL STREET



DATA: AMERICAN INTERNATIONAL GROUP INC.; BRIDGE INFORMATION SYSTEMS INC.; KIDDER, PEARBODY & CO.; ZACKS INVESTMENT RESEARCH; BW

Greenberg is the ultimate insurance entrepreneur. He is the sharpest insurance underwriters around. But will he be as successful handling the massive credit exposures created by his

That isn't the only long-term risk AIG faces. There's Greenberg's I-am-the-law management style. "There's only one royal highness around here," says Thomas R. Tizio, AIG's president and property and casualty chief. Will that

Lean and fit from daily workouts on his exercise bike and stair-climber, Greenberg seems preoccupied with the bridge-builders. "We don't wait until the bridge is built and have a couple of tanks go across," he says. "We want to be the bridge-builders." Indeed, Greenberg keeps underlings at his—and his customers'—constant beck and call. "If I want to call somebody at Liberty Mutu-

al, I've got to get him by 4:45 in the afternoon," says Eugene R. Greenberg, a New York insurance lawyer. "But if I want to reach someone at AIG, I can call him at 11:45 at night."

A Type A workaholic, Greenberg sets the same pace for himself. Says a former classmate of Greenberg's at New York University, "He's

Not as energetic as in Green-

apparent than in Green-

sell business and personal insurance to the booming metropolis. Greenberg's chief ally

ful member of the Politburo who functions as the nation's economic czar.

Something of a coup in itself, the decision returned AIG to its Shanghai roots and made it the first foreign insurer allowed back into China since it left a year after the Communist Party takeover in 1949. Days after winning its license, AIG had already written its first policy, a marine insurance one. It's now preparing to hire and train hundreds of local agents to sell life insurance. "They're poised to eat up the market," says Michael C. Kwee, an AIG alumnus and president of Hong Kong-based Prudential Asset Management Asia Ltd.

LONG SHOTS. Washington, Moscow, and Beijing weren't Greenberg's only stops. There was time out for the annual power breakfast or senior management meeting in his 18th-floor office suite and with patrons of himself with world leaders. The chairman headed off to Manila along with 50 high-level U.S. business executives for meetings on much of the Philippines' political and

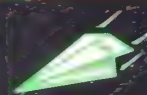
business elite. A staunch Republican and free-trader, Greenberg was also among the U.S. executives on President Bush's trade mission to Asia last winter.

Such peregrinations often lead him into taking long-shot bets. For example, years of insurance deals with the former Soviet Union—and Greenberg's connections as the current deputy chairman of the Federal Reserve Bank of New York—helped pave the way for AIG's Moscow investment bank and another new venture that aims to sell insurance to Russian entrepreneurs. And nearly two decades of joint ventures, real-estate investment, and dogged personal lobbying in Beijing and Shanghai, Greenberg and Henry A. Kissinger, Greenberg's close friend and No. 1 global troubleshooter, helped open the door for AIG's return to China.

Greenberg is currently negotiating to resume writing life insurance in Pakistan, where AIG's life unit was nationalized in the 1970s, and lately has even dispatched staffers, traveling as to

GREENBERG'S NEW AGENDA FOR AIG

AT HOME...



FINANCIAL SERVICES Rapidly expand trading of commodities, currencies, and swaps. International Lease Finance, its aircraft-leasing group purchased for \$1.26 billion in 1991, plans to order \$4 billion in new jetliners



LIFE INSURANCE May invest \$1 billion to dramatically widen existing U.S. business. Considered buying Equitable, Travelers, and failed Mutual Benefit. Still shopping



AUTO INSURANCE Moving into high-risk urban areas. Recently bought 20% of Robert Plan, highly profitable insurer serving New York region. Mapping new ventures in Delaware, Texas, other states

...AND OVERSEAS



CHINA Persuaded Beijing elite to allow AIG to become the first foreign insurer permitted to write policies in China since the Communist takeover in 1949. Already providing coverage for foreign joint ventures in Shanghai, AIG's birthplace 53 years ago. Soon will begin selling life insurance to the bustling city's emerging middle class



RUSSIA Set up investment bank with President Boris Yeltsin, leading military and industrial interests, and Wall Street and European investors. Plans to speed Western investment in oil, gas, auto parts, transportation



MEXICO Counting on rapid growth in trade with Latin America, considers expanding 49%-owned Mexican affiliate. Already a leading pension fund manager in Chile, AIG plans to grow in Argentina if, as expected, government privatizes retirement-plan system

SOURCE: COMPANY REPORTS, BUREAU OF ECONOMIC ANALYSIS

ing to Vietnam. The go-get-'em spirit seen to have pervaded even the most humble reaches of Greenberg's realm. Boasts one executive: "We'll even send a dugout canoe down a river in the Philippines to sell a life insurance policy."

OMAHA BEACH. Interenergy and an appetite for risk have been Greenberg's hallmarks ever since his youth on a farm in the upstate New York village of Swan Lake. At 17, Greenberg ran away from home, lied about his age to get into the Army, and ended up a Ranger, taking part in the Allies' landing at Omaha Beach. Back home after the war, he attended the University of Miami and New York Law School, only to be recalled to Korea. Pressed into service as a defense attorney, court-martials of GIs accused of smuggling and other petty offenses, he immediately won the commanders' ire by winning a string of acquittals.

After moving on



TOKYO SALES OFFICE: HALF OF AIG'S PROFITS COME FROM LUCRATIVE FRANCHISES OVERSEAS

what duty on the front, Greenberg returned to New York. Without a job and his wife, college sweetheart Corinne, and the first of their four children feed, the young lawyer began knocking on doors along William Street, the heart of New York's insurance district. Puffed by an officious personnel man at Continental Casualty, Greenberg refused, he searched out the man's boss and chewed him out for the assistant's behavior. "I left with a job," Greenberg replies. "That's how I got into insurance. It was great career planning."

He's got a low tolerance for people who are incompetent," says retired Army Brig. Gen. John E. Barry, a Korean War buddy of Greenberg's. "He doesn't mince words, and a lot of them are four-letter ones."

JOE MOVES. Greenberg showed a proclivity for shaking things up in his early days at AIG when he was put in charge of American Marine, a dog-eared division struggling to market personal and small-business policies. Soon after taking over the unit, Greenberg dumped the entire business and repositioned it as a provider of multimillion-dollar insurance lines to big corporations. As a reward for the turnaround, Starr handpicked Greenberg as his successor a few months before his death in 1969, leapfrog-

ging him over two more senior rivals.

Over the past year, Greenberg has ordered his money-losing New Hampshire Insurance Group to withdraw from writing consumer policies. He is now turning it into an outlet selling megacorporation-style coverage tailored for midsize businesses. He has also scaled back coverage for workers' compensation and commercial trucking.

But these activities are chip shots compared to his major new ventures in financial services. The moves were made

possible by AIG's AAA credit rating, its dearth of bad real-estate loans, and a portfolio of high-quality government and corporate bonds that is worth about \$1 billion more than its \$26.2 billion book value. Greenberg's corps of dealers, schooled at Drexel Burnham Lambert Inc., Goldman, Sachs & Co., and other houses, are now trading up a storm in bullion, foreign exchange, and swaps. Greenberg's traders specialize in using the company's high credit rating as the security for unusual transactions that

can stretch out for 10, 20, or even 30 years—ones that risk-averse banks generally shun.

Since ex-Drexel dealmaker Howard B. Sosin set up the 80%-owned AIG Financial Products Corp. in partnership with Greenberg in 1987, for example, the insurer has built up \$89 billion in swaps, many of them with lower-rated states and municipalities. Take the Los Angeles County Transportation Commission. It recently concluded a swap deal with Sosin's group that protects the body against interest-rate swings on \$98 million worth of floating-rate notes. In effect, AIG Financial Products took over the commission's obligation to pay a floating rate of interest to investors for the next 20 years. In return, the commission locked in its financing costs by agreeing to pay



DENG GREETSS GREENBERG: CHINA WAS THE START

the unit a fixed rate for the entire period. Despite AIG's fees, the transaction still saved the commission nearly half a percentage point over what it would have had to pay by issuing fixed-rate debt on its own.

Such activities generated \$105 million in pretax profits for AIG last year and, according to banking sources, brought Sosin an estimated \$3 million to \$5 million in compensation. Sosin, through a spokesman, declined to comment. But high compensation for high achievement is a way of life around AIG.

Greenberg earned \$1.95 million last year, and he now controls 2.2% of AIG's shares, worth a cool \$520 million. On their own and through two private holding companies, Greenberg and a small band of other top AIG managers and alumni own another 29% of the company's stock. Greenberg's interests in these holding companies alone may be worth an additional \$500 million or more. "What makes AIG unique is the ownership by top management and insiders," says Smith Barney, Harris Upham & Co. analyst Ronald W. Frank. "You want to have a management that eats its own cooking. These guys assuredly do."

With such a major stake in AIG, it's thus no wonder that Greenberg, a dedicated pennypincher who favors a plastic Casio runner's watch over the typical CEO's gold Rolex, keeps an eye on AIG's coffers as if they were his own. But in addition to being a ruthless cost-cutter, Greenberg has gained a reputation as the Street's sharpest bargainer.

Many big insurance customers and brokers contend that prying cash out of AIG can be an excruciatingly difficult affair, often solved only after a tough legal battle over the many delicate nuances in its complex policies. Attorney Anderson, who has opposed AIG in many cases, recalls that "when I give after-dinner speeches, I say that every speaker tells a joke. I'm going to tell you one now. Greenberg paid a claim."

Greenberg bristles: "That's a bad rap. You're



AIG'S KAREN HU IN SHANGHAI: 13 MILLION FRESH PROSPECTS

always going to find you haven't made someone happy." Noting that many such disputes stem from a long-running battle between insurers and customers over coverage of years-old environmental claims stemming from the federal Superfund cleanup program, he insists that "we'll pay every fair claim, and will resist every claim we shouldn't pay."

Nonetheless, some major customers remain unimpressed. FMC Corp., for instance, is currently suing AIG, Liberty Mutual, and 163 other insurers in California to determine whether policies sold as far back as the 1940s will pay to clean up 79 identified hazardous waste sites nationwide. Much of the case hinges on technicalities, including the changing legal definition of such terms as "sudden and accidental" damages. While AIG, which has played a leading role in the defense, lost a round in the state Su-

premise Court last year is continuing to slug out. "FMC bought comprehensive general-liability coverage over the years," says Bowen Tucker, FMC's senior litigation counsel. "We just trying to get the insurance that we think paid for."

Greenberg worries a good deal about the long-term threat to AIG as other insurers from Superfund claims and natural disasters, such as an earthquake even more massive than the recent one that laid waste to parts of San Francisco and Oakland. Greenberg contends that such a catastrophe could wipe out much of the U.S. insurance industry's ready cash and cause a crash in the bond market as insurers madly sell assets to raise more funds. To stave off such a financial calamity, he proposes a Federal Deposit Insurance Corp.-type body to cover insurance-company failures. He also advocates a no-fault hazardous waste cleanup system, financed by a 2% federal tax on business insurance premiums to supplant the government's Superfund program.

OPEN NEPOTISM. A much more tangible risk to AIG, though, is the apparent lack of a successor to Greenberg. His strong advocacy of turning even modest-size product lines into discrete profit centers has built up a cadre of bottom-line oriented, thirtysomething managers. But AIG's upper reaches, many of Greenberg's closest advisers are themselves in their 70s and up. Although while Wall Streeters admire Tizzio, 54, and Vice Chairman Edward Matthews, 61, the group's CFO, most observers still believe Greenberg is keeping his chair warm for his eldest son, Jeffrey, 41.

Regarded as a talented insurance man in his own right, Jeff, whom his father promoted in 1991 to head AIG's influential domestic brokerage unit, nonetheless raised a ruckus in Florida and Louisiana last September by urging executives to press for rate hikes in Hurricane Andrew's wake. Through a spokesman, Jeff Green-



LOADING UP: GREENBERG INSURES HAZARDOUS-WASTE HAULERS

rg declines to comment. His father is usually reticent on disclosing who might eventually follow him as CEO, saying: "We have several vice-chairmen. If I take the wrong bus, someone will succeed me. Will I disclose who it is? No." At least two top managers, life-insurance boss George A. Abouzeid and Joseph P. DeAlessandro, now Primerica Corp.'s insurance chief, are said to have

quit in recent years after tiring of waiting for Greenberg to consider them for his job. "It got to the point where I was 58 and Hank 61," says Abouzeid. "I felt that even if I had a shot at his seat, it should be someone in his mid-40s. There was no point hanging around."

Perhaps reflecting its Chinese roots, AIG places a high value on family ties. Sons and nephews of Starr's original col-

leagues continue to hold key positions, and two other Greenberg sons, Evan, 37, and Scott, 34, are also AIG managers. Nonetheless, it's clear who's the boss. Over the past 24 years, Hank Greenberg has piloted AIG through plenty of uncharted waters. At 67, he's hardly done with the job.

By William Glasgall in New York, with bureau reports

IN AIG'S HANGAR: A JET TYCOON WITH A GREAT SENSE OF TIMING

Steven F. Udvar-Hazy is not one to let friendship stand in the way of business. Just ask America West Airlines Inc. founder Edward R. Beauvais. Hazy, chief executive of International Lease Finance Corp., helped Beauvais get off the ground in 1983 with three leased Boeing 737s. They became pals, even skiing together. But when America West ran low on funds in 1991, Hazy had no qualms about yanking back ILFC's planes and a \$4 million deposit. The next day, America West filed for bankruptcy. Says Hazy: "We benefited from America West's failure and managed to stay out of their bag of snakes."

Good timing and a keen eye for profits have long marked Hazy's career. As a high-flying aircraft lessor, he made his biggest deal ever when American International Group Inc. bought ILFC in 1990 for \$1.26 billion in cash and stock. The high price tag raised eyebrows on Wall Street, especially after Iraq's invasion of Kuwait sent airlines into a deep slump. But as travel has slowly recovered, Hazy, who, along with his two co-founders, agreed to stay on for a "generous" pay package based on ILFC's profits, has become one of AIG's most prolific money-makers. Smiles AIG Chairman Maurice R. Greenberg:

ILFC is doing very well. Quite well."

RAILING SMOKE. Indeed, ILFC now makes up some 10% of AIG's pretax profits, earning \$165 million in the first nine months of the year on \$516 million in revenues (chart). With money coming in so fast, Hazy is now preparing to cash in on the troubles of Irish archrival PA Group PLC, which is trying to restructure \$3 billion in loans.

Hazy suggests that ILFC may pick up some of GPA's aircraft on the cheap. "We don't want to see GPA fail," says Hazy, "but we would like to see them as a second-tier competitor."

Even if he doesn't snare any GPA craft, that won't hurt Hazy's plans to expand his 180-plane fleet, worth \$6 billion. He expects in December to wrap up \$4 billion in orders for some 90 Airbus and Boeing jets for delivery beginning in 1994. But he's hardly paying top dollar. Sources close to the negotiations with Boeing Co. and Airbus Industrie say ILFC may get discounts as big as 30% off current asking prices for a fleet of soon-to-debut 777s and more.

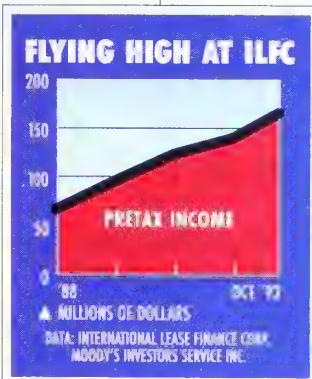
A Hungarian who fled after the 1956 Soviet occupation of his homeland, Hazy launched ILFC after meeting Louis Gonda while the two were college students in Los Angeles. In 1973, Hazy, Gonda, and his father, Leslie, pooled their savings, bought a DC-8 for \$150,000, and leased it to Aeromexico.

From then on, Hazy avoided the troubles plaguing GPA and many weakened carriers by building carefully. With airlines expanding in the easy-money 1980s, carriers and ILFC's leasing competitors vied to pay inflated prices for aging planes. But ILFC moved slowly, avoiding weak carriers and sticking with newer aircraft.

With one of the best fleets aloft, Hazy expects ILFC's revenues to surpass \$1 billion next year. Yet it has a work force of just 39, the most important of whom clearly is Hazy himself.



UDVAR-HAZY SOLD ILFC AT PEAK PRICE



Like AIG's Greenberg, he's a hands-on manager-dealmaker. Dapper, charming, fluent in Hungarian, English, and Spanish, Hazy pilots the company's Lear jet around the globe in search of business. "He's the best negotiator in the industry," says John Leahy, vice-president of Airbus Industrie of North America, who in 1988 sold Hazy \$1.3 billion worth of planes in one order.

In one recent all-night session in a hotel near Gatwick Airport, Hazy orchestrated the takeover of failing European carrier Dan-Air Services Ltd. by British Airways PLC. Arguing BA would get new routes at a bargain price, he persuaded the line to pay off Dan-Air's debts and take over nine ILFC-owned Boeing 737s and three others owned by Citibank.

Hazy also used the opportunity to lease three more planes to BA. With Hazy, keeping ILFC's planes flying is mission No. 1.

By Eric Schine in Los Angeles

Built for speed.



This is a picture of IBM.

First off, this isn't a photo of a car.

It's a computer-generated image created by crunching billions of mathematical design specs stored in a database.

The work was done by an advanced parallel processor called the IBM POWER Visualization System.[™] It turns numbers into pictures about 30 times faster than could be done before.

But this isn't about the speed of a computer, it's about the speed of IBM. Speed-to-market is critical to us (and our customers), so our research division developed the POWER Visualization System as part of a



ing faster.

iment. To see if we could create breakthrough
ets as quickly as any start-up company, they set
ir own start-up within IBM.

Working with almost complete independence,
hose a market, selected a pool of talented people
rganized around a customer need, a tight budget
n unforgiving timetable. In record time, they had
em that turns mind-numbing volumes of data
igh-resolution pictures quickly enough to
r in full motion, like movies.

They came up with something else IBM likes—
mers. Scientists, engineers, designers, even

filmmakers use the POWER Visualization System to see
images in motion—of molecules, weather patterns, oil
deposits and more—that were once unseeable. Opening
new vistas, not just on computer screens, but in minds.

But for us, the reward of this effort comes as much
from its process as from the product. We've seen
firsthand how a big outfit can work like a small one, and
the effect is rippling throughout IBM.

The POWER Visualization System may be able to
improve how you do things, too.
To learn more about it, please
call us at 1 800 388-9820.





BANKS ARE LENDING —TO THE FEDS

Buying more long-term U.S. securities is paying off, but . . .

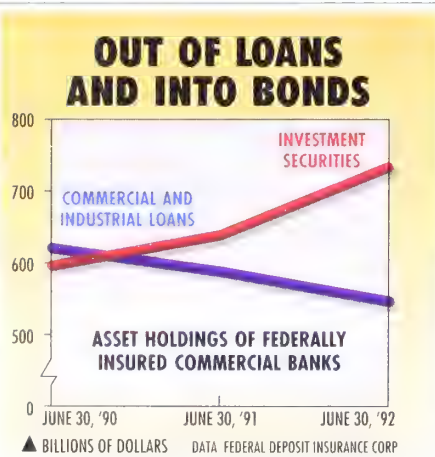
Up in Syracuse, N. Y., ONBANCorp Inc., a bank with assets of \$2.5 billion, is making a ton of money in a rather unbanklike way. It borrows short-term money at 3%, then buys longer-term U.S. government and agency securities yielding 6.5% or more—and pockets the difference. The result: a bigger balance sheet and record profits.

"Our shareholders demand an adequate return on equity," says Randy J. Wiley, ONBANCorp's vice-president for investments and funds management. His bank is an active and profitable lender. But, he adds, "we did not have enough loan demand that we could grow the bank the normal way."

RATE RISE? Banks across the country are using the same strategy. In effect, they're lending to the government instead of to companies and individuals. And with the gap between longer-term rates and banks' short-term borrowing costs near an all-time peak, bank earnings are soaring.

But there's potentially a big catch: What if interest rates were to rise? That

possibility is quite real, since the economy is showing signs of recovering at last. On Nov. 23, Robert B. Reich, who heads Bill Clinton's transition economic team, said the new Administration might be willing to increase the budget deficit for a brief term to stimulate the economy. The deficit is already running higher than expected.



Short-term rates have already been climbing. By late November, three-month Treasury bills were trading at 3.29%, from 2.65% at the beginning of October. If the trend continues, bank funding costs will be cutting into their profits from investing. And higher long-term rates would drive down prices on securities that banks are holding.

The prospect of higher rates is worrying regulators and industry experts. Federal Reserve Board Chairman Alan Greenspan said in a November speech that while he was not seriously disturbed, "it is probably true that greater interest-rate risk have developed of late. As regulators, we view

both credit and interest rate risks as matters of concern." Henry Kaufman, president of Henry Kaufman & Co., a former chief economist at Salomon Brothers Inc., points to a more dire possibility: If higher rates erode banks' realized profits, banks will become even more cautious instead of expanding credit. "That would contribute to checking an economic expansion," he says.

Bankers tend to discount the risk. ONBANCorp's Wiley says he's keeping a close watch on his bank's investment portfolio so he won't get caught if rates rise. But he adds: "If banks are holding Treasuries for sale and not actively managing them, I'm sure some of them are licking their wounds as we speak."

Banks' move into securities and away from loans has been dramatic (chart). By the end of June, banks' investment portfolios stood at \$734 billion, dwarfing their \$546 billion in commercial and industrial loans. As of last June, more than 1,200 banks had at least 20% of their assets in investment securities with maturities of five years or more. Treasury securities accounted for most of the portfolio growth in 1991: Banks added \$56 billion in T-notes and bonds to their investments, bringing their Treasury holdings to \$229 billion, according to the Federal Deposit Insurance Corp.

Banks were lured into securities by weak loan demand and an aversion to lending to any but the safest customers. "We want to lend money. We've got money to lend," says Jack W. Park, chief financial officer at Union Planters Corp. in Memphis. "We would like

ve more loans and fewer Treasury securities," he says, but the bank isn't getting enough loan requests from creditworthy borrowers. Bankers also note that regulators require them to set aside in capital for every \$100 they lend to companies, but there is no such standard when they buy a Treasury security. Regional banks have the greatest proportion of their assets in investment securities. Unlike big multinationals, they don't have a lot of other choices if local demand for credit is soft. "When you don't have the loan demand, there's only one place to put your money, and that's investments," says Tom Frost, chairman and chief executive officer of Cullen/Frost Bankers Inc. in San Antonio.

CUSHION. Many bankers with large Treasury positions say they have hedged themselves against rate changes by buying swap or futures contracts. Others are looking for longer-term, fixed-rate trading for their securities positions, which sometimes have maturities of five years or more. Roughly three dozen banks have tapped the long-term debt market since the end of June. Still others have launched campaigns to get depositors to take out one- and two-year certificates of deposit.

Under current rules, however, regulators have few ways to check how well banks are hedging themselves. Examiners must rely heavily on their own interpretations of a bank's data to determine whether a bank is taking too much interest-rate risk, says Robert L. Inskeep Jr., director of large-bank supervision at the Office of the Comptroller of the Currency. In any case, hedging is no panacea. When banks hedge away their risk, they give away their fat profits as well.

Few observers expect bank failures when if rates spike upward. Many healthy banks, such as ONBANCORP, have cushioned millions of dollars in unrealized gains on their investments. Moreover, government-securities markets are highly liquid, so banks could unload investments fast if necessary. And banks often keep deposit rates down even when market rates rise. Three-month CDs have actually dropped in the past 10 months, according to industry newsletter *Bank Rate Monitor*.

Richard D. Lodge, head of funds management at Banc One Corp., says higher short-term rates can even signal strong business-loan demand, which would be good for banks. "You usually don't see high short-term rates associated with lousy economic growth," he notes. But if rates do spike, many banks will have to wave goodbye to some of their best and most bountiful profits in years.

By Kelley Holland in New York, with
in Foust and Mike McNamee in
Washington

A BOTTOM-FISHER'S BEST CATCH MIGHT BE BIG BLUE

The Street is almost uniformly negative—which often means 'buy'

For month after exasperating month, Wall Street has been treated to a true-life drama: *Waiting for Big Blue*. It's becoming awfully monotonous. IBM's earnings are pummeled in Europe. Its stock falls. Analysts question the dividend. Its stock falls. Nothing happens. Its stock falls. Today, IBM's shares are down 27% in 1992, to about 65—a 10-year low. And Big Blue's 800,000 shareholders are still waiting—for their misery to end.

Well, there are promising signs that the dreary saga of IBM's stock is finally reaching a denouement. For one thing, a host of widely accepted indicators are boding well for the computer giant as a contrarian stock play. And against-the-grain investors have another major source of cheer—the dour stance of the dozens of analysts who follow IBM. With a smattering of exceptions—notably Don Young of Shearson Lehman Brothers Inc. and Mark C. Jordan of A. G. Edwards & Sons Inc.—analysts have become indifferent or even hostile.

MASS MISS. That puts them in a peculiar position. One of the Street's abiding truths is that when analysts all feel the same way, good or bad, they have a tendency to be wrong. "Generally speaking, when you see such negative sentiment, it represents a buying opportunity," concedes William Milton, a Brown Brothers Harriman & Co. analyst who was one of the first to turn sour on Big Blue and is still skeptical about the computer giant's prospects.

The valuation numbers certainly seem to stack up in IBM's favor lately. Its dividend yield—7.4%—is almost five percentage points higher than the yield of the Standard & Poor's 500-stock index and is one of the highest to be found even among utilities. Its price-earnings ratio of 14, based on the average of analysts' estimates for 1992 earnings, is well below the S&P 500's overall p/e of 23. And IBM is trading at just a hair over the value of its assets as stated in its balance sheets—a price-to-book ratio that has begun to convince some market-watchers that IBM is bottoming out and could easily rise from here. "I per-

sonally think it has fallen so far that [IBM] is getting to be a value stock," says E. Michael Metz, chief investment strategist at Oppenheimer & Co.

True, analysts have been casting doubt on the future of Big Blue's dividend. They note that the \$4.84-a-share payout actually exceeds the \$4.68 a share that IBM is expected to earn in 1992, and it will soak up two-thirds of the \$6.26 a share in profits expected in 1993. But a company spokesperson reaffirms IBM's longstanding contention that it has "no plans and no need to cut the



dividend." Even the most bearish analysts agree that a dividend cut is already reflected in the share price and that a resurgence in confidence in the dividend stands to boost the share price—to perhaps \$80 or more, in Young's view. "The company has been very, very vocal [about the dividend], and that gives them an almost fiduciary responsibility to their shareholders," asserts John B. Jones Jr., who follows IBM for Salomon Brothers Inc.

Another potential source of cheer is the possibility of a breakup of the company. The idea would be to spin off, say, the competition-plagued PC operations,

as well as the company's financial subsidiaries. Such a move would eliminate a drag on earnings, reduce debt, and give the market more confidence in the dividend. Oppenheimer's Metz believes that a split-up IBM might be worth as much as \$90 a share.

The bullish scenario is tempting. But is it credible? After all, IBM has appeared to be a "screaming buy" by contrarians

in the past—and investors have wound up screaming. Over the short term, Big Blue shares will probably be depressed until New Year's Eve by tax-motivated selling. That could keep the shares moving south, perhaps into the 50s. Meanwhile, the sore point that has plagued IBM—crummy earnings—remains an open question. Negative earnings surprises have repeatedly sent IBM shares

tumbling. "What scares me is fundamental—the deterioration in demand for products and services," says Milton. I cut my earnings estimate for the fourth quarter recently, but I'm not sure that was enough of a cut." Of course, analysts have been proven wrong about IBM time and again. Heaven help Big Blue this time they are right.

By Gary Weiss in New York

INSURANCE

COLLISION COURSE

California's car-insurance Proposition 103 comes to trial

Four years ago, Californians voted themselves a 20% cut in their surging auto-insurance rates. Unfortunately for motorists, Proposition 103, as it's called, was too good to be true. Numerous delays have bogged down implementation (table). Now, the rate cut is headed for yet another legal showdown that may end the saga—eventually.

On Nov. 30, Los Angeles Superior Court will hear an industry challenge to the rollback plan proposed by Insurance Commissioner John Garamendi. This would give Golden State motorists, who pay an average premium of \$751 a year, an estimated \$100 rebate per car.

The outlook for impatient motorists, though, remains murky. The court is likely to uphold Prop 103. But the informed betting is that the judge won't let Garamendi push through a blanket rollback in the country's largest (\$12 billion) car-insurance market. Instead, it is likely that Garamendi will have to take on many of the state's 400 companies on a case-by-case basis before his agency's administrative tribunals and perhaps, on appeal, in the courts. Otherwise, says Terry J. Houlihan, a partner at McCutchen, Doyle, Brown & Enersen, a San Francisco law firm representing one of the insurers, there's a danger that "companies are being denied due process." The upshot: more delays in giving motorists Prop 103's bounty.

FLAT IRE. When Prop 103 was passed, in 1988, it sparked a nationwide revolt against spiraling auto premiums. Three states pushed through similar rollbacks: New Jersey, Pennsylvania, and South Carolina. But the insurgency has petered out. In 1990, Arizona voters turned back a Prop 103 look-alike, and after

Nevada lawmakers approved a rollback initiative, a court struck it down. Nationally, the recession has cooled policyholders' ire by easing rate hikes from a double-digit pace in the late 1980s to 5.9% this year.

Prop 103 bogged down shortly after California voters approved it. In May, 1989, the state Supreme Court gutted the provision for a flat 20% rollback, ruling that insurers were entitled to a fair profit. The issue languished under a Republican-appointed commissioner. But when Democrat Garamendi took over in 1991 as the first elected commissioner, he promptly froze rates and, as a start, required 14 big insurers to refund past premiums under a formula that he maintains is just. Any return on equity of more than 10% in 1989, the year after the Prop 103 vote, must go back to the policyholders.

The insurance industry derides the 10% ceiling as too low. Says August P. Alegi, a group vice-president at GEICO Corp., one of the state's top insurers: "That's less than what Pacific Gas & Electric gets." To insurers, Prop 13 is conceptually flawed, since it doesn't tackle the costs that drive up rates: lawsuit awards for injured drivers, medical care, and car repairs.

Spearheading the insurers' assault

against Prop 103 is 20th Century Insurance Co., which is bringing the Nov. suit. The Woodland Hills (Calif.) insurer argues, among other things, that Prop 103 says nothing about using return-on-equity in a rollback formula. "We don't owe one penny," insists 20th Century crusty chairman, Louis W. Foster, who delayed his retirement from the carrier, which he founded in 1958, to fight Garamendi.

The stakes are high. Feisty 20th Century, one of the state's lowest-priced carriers—because it relies on phone and direct-mail sales rather than agents—must cough up more than 11% of its \$900 million annual revenue under the rollback. Garamendi brands 20th Century "an insurance outlaw" for opposing his ruling.

The endgame of Prop 103 still seems far away. Appeals

the 20th Century case could take years. Plus an additional suit, filed by nearly 100 other insurers, awaits a hearing. "Even if the commissioner were to win [the 20th Century skirmish]," says insurer lawyer Houlihan, "it's not over." Motorists thought their vote in 1988 would bring instant gratification, the drawn-out denouement of Proposition 103 provides a sobering education in the regulated industry's power of resistance.

By Amy Barrett in Los Angeles



ROLLBACK FOE
LOUIS FOSTER:
"WE DON'T OWE
ONE PENNY"

THE LONG BATTLE OVER PROP 103

NOVEMBER, 1988 California voters pass Proposition 103, to cut auto insurance rates by 20%

JANUARY, 1991 State's new Insurance Commissioner John Garamendi freezes all rates

OCTOBER, 1991 Garamendi orders 14 big insurance companies to refund \$1.6 billion to customers

NOV. 30, 1992 Trial on insurance industry's challenge to the rollback, spearheaded by 20th Century Insurance, is slated to begin

DATA: BW

GENE G. MARCIAL

FROM SHALLOW WELLS FLOW DEEP RICHES

Nobody is betting just yet on hitting a home run in the beaten-down oil stocks. But a few savvy investors say it may be time to go for some of the plays that could at last deliver a neat two-bagger. One that's been attracting a crowd of fans is a small "home-drilling" independent: Parker & Parsley Petroleum.

Parker & Parsley specializes in low-risk drilling of "infill," or shallow wells, in the U.S. "They don't go off coloring in faraway exotic but expensive places like Sumatra," says money manager Scott Black of Delphi Management, who has accumulated a 3.5% stake in the company. He estimates that Parker, whose stock has edged up 15 from 12 a share in July, owns oil-and-gas assets valued at more than \$22 a share. Competing oil-and-gas explorers, Black notes, sell at a premium to their oil-and-gas reserves.

Parker has been very aggressive in buying oil-and-gas properties in the U.S., mainly in the Permian Basin area of West Texas. The company's daily output has been growing robustly, says Black, with production increasing 12,800 barrels of oil a day in the third quarter from 7,550 barrels a year ago. Natural gas production has also risen, to 69,000 cubic feet a day from last year's 53,000 cubic feet.

'OPPORTUNISTIC.' Parker's big advantage over its rivals, says Black, flows from its expertise in drilling wells that usually cost about \$300,000, plus an additional \$50,000—if the drilling proves successful vs. a cost of \$5 million to \$10 million in deep-well exploration, explains Black. Abroad, the cost could reach \$100 million, he believes.

Black figures Parker's "opportunistic" buying of oil-and-gas assets at cheap prices, plus its low-cost and low-risk drilling efforts, will result in earnings of 95¢ to \$1 a share this year—vs. last year's 77¢—and \$1.25 to \$1.30 in '93. With its healthy cash flow and efficient management, says Black, Parker has been able to cut its debt.

Parker's oil-and-gas properties are in Colorado, New Mexico, Oklahoma, Pennsylvania, and Texas, and the company sees further expansion through more property acquisitions. Parker is believed ready to buy assets from sev-

PARKER & PARSELEY: GAINING MOMENTUM



eral major oil companies, including some put on the block by Arco.

Investment pro Alan Gaines is also high on Parker. He believes the company's production will increase substantially next year. "Parker is the most aggressive and most active driller in the Permian Basin area, where the company has a niche operation with an infrastructure in processing plants," says Gaines, president of Gaines Berland, a New York securities firm that specializes in energy. He is forecasting that the stock will hit 24 by mid-1993.

RADIO DAYS REDUX?

Ever hear of Clear Channel Communications? Probably not. But if you're a radio fan, you may have tuned to one of its 24 radio stations in such cities as Houston, New Haven, and New Orleans. And if you're a stock watcher, you might be aware that Clear Channel's stock has been hot for a radio-station operator, up from 14 a share in August to 20.

Why? Believe it or not, radio is coming back and starting to make money again for Clear Channel, which also owns and operates seven television stations, including KLRT-TV in Little Rock. With Arkansas' economy now expected to perk up, Clear Channel President and CEO Lowry Mays thinks the TV station alone will produce revenues of \$5 million and cash flow of \$1.8 million next year.

But that's not the real draw of Clear Channel. The Federal Communications Commission's recent decision lifting national ownership limits on radio sta-

tions, and the prospect of further regulatory loosening, means that Clear Channel will be able to continue buying broadcasting assets when most of its competitors are still strapped for cash. Through cost-cutting, program reformatting, and direct marketing, the company is beefing up its radio-TV station portfolio by purchasing underperforming broadcasting properties.

Money manager Jonathan Simon of Fleming Capital Management, which owns an 11.3% stake in Clear Channel, believes the stock is way undervalued at 11 times his current after-tax cash-flow estimate of \$1.70 a share. A fair current multiple is 17, considering the company's 20% annual-growth history. Simon's estimate for next year is \$2.05. He thinks the stock could go as high as 35 in 1993.

A TEMP AGENCY'S EXPERT TIMING

Despite its pricey price-earnings ratio, On Assignment could be right on the money. As a provider of temporary help, On Assignment isn't your run-of-the-mill personnel-service company. It mainly supplies temporary help trained for medical laboratories, hospitals, and health-care clinics. With the medical and biotech businesses booming, it's no wonder that demand for On Assignment's temporary workers has been growing fast. And little wonder, too, that its stock has been on the rise.

The company went public on Sept. 22 at 7 a share. It's now at 9 1/4, and some pros say On Assignment is destined for higher ground. "Our 6-to-12-month target for the stock is 12 to 14 a share, using a p-e ratio of 25 on a 1993 earnings estimate of 50¢ a share," says analyst Davon Glacalone of Unterberg Harris, a New York securities firm. He expects earnings of 37¢ this year.

Glacalone says On Assignment has the potential of raising its revenue to \$100 million to \$125 million in three to four years, from the 1992 estimate of \$32.5 million. Some of the nation's top drugmakers are among On Assignment's biggest customers: Abbott Laboratories, Hoffmann-La Roche, and Bristol-Myers Squibb.

Analyst Kevin Clark of Advest says On Assignment deserves a higher price because of its strong earnings prospects (even in a slow recovery), healthy cash flow, debt-free balance sheet, and high return-on-equity of 30%. His target in the next three years: 27.

THERE'S SOMETHING UNDER THE TREE FOR BIG STEEL

Orders are up—and the feds may lean on foreign rivals

Eight straight quarters in the red. More than \$1.4 billion in collective operating losses. Global overcapacity. Prices so low they would make a strong man weep. Given their woes, it's no wonder the major U.S. steel companies have been singing the blues. But finally, starting Nov. 27, the big steelmakers may switch to a more upbeat songbook.

That's the day Big Steel expects to land the first of its one-two punches aimed at imports. First, the Commerce Dept. is due to release preliminary decisions on a bevy of unfair-subsidy charges filed last summer by the big steelmakers. Then, in January, Commerce will make a preliminary ruling on whether foreign steelmakers have dumped their products in the U.S.

OLD PALS. The betting among steel executives is that the feds will find in favor of the domestic mills, forcing foreign steelmakers to post millions of dollars in cash bonds on any steel exported to the U.S. until a final ruling is made in mid-1993. Rather than pay up, many cash-strapped exporters are likely to retreat from the U.S. market, leaving more business for domestic suppliers.

Big Steel is betting that the trade cases will help boost its bottom line as early as the first quarter of 1993. Already, companies are reporting healthy increases in orders as customers come back to domestic suppliers. "We see a lot of [potential customers] lately who say, 'Tom, how ya doin'?' Haven't seen you in years," says Thomas J. Usher, president of the U.S. Steel Group of USX Corp. "We're becoming old buddies again." Even Wall Street is starting to cozy up to the big companies. Buoyed by the trade outlook, plus an improving economy and potentially higher infrastructure spending under the Clinton Administration, some major steel compa-

nies' shares are up 30% or more since early October.

A major reason is that Big Steel believes that it finally will be able to raise prices a tad. U.S. Steel, Bethlehem Steel, LTV Steel, Inland Steel Industries, Armco Steel, and National Steel have repeatedly failed over the past two years to make price hikes stick. They badly need relief. Across their product lines, with prices now no higher than they were a decade ago, the steelmakers lost roughly \$21 per ton during the third quarter on each \$468 ton of steel they sold (chart), estimates PaineWebber Inc.

Effective Jan. 1, the Big Six steelmakers have all announced \$10-to-\$20-per-ton price hikes on flat-rolled steel products, which account for about 85% of their revenues. They hope that less competition from foreign steelmakers will be enough to make the new prices hold. Inland Chairman Robert J. Darnall notes that U.S. steelmakers' orders and prices picked up fast once similar cases were filed against importers of leaded steel bars in April.

Big Steel argues that it had no choice but to launch a trade battle to beat back foreign competitors. Import quotas that had been in effect for 10 years expired on Mar. 31, threatening to flood the U.S. market with foreign steel. Although big U.S. steelmakers poured \$23 billion into their plants during the 1980s and are now as productive as Japanese and German rivals, they continue to lose money.

The main reason, the U.S. companies charge, is that France, Italy, Brazil, and other countries have propped up their steel industries with more than \$100 bil-



U.S. MILLS ARE BETTING THAT HIGHER PRICES WILL HOLD

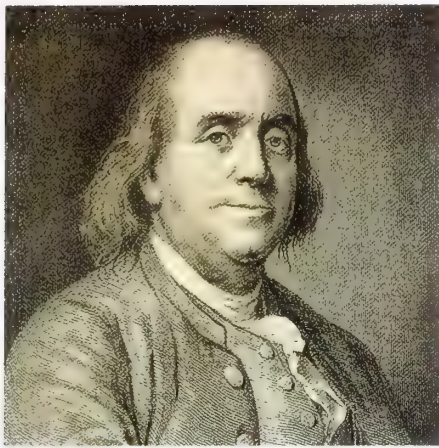


lion in subsidies since 1980. Foreign rivals counter that they're being made scapegoats for the weak U.S. economy. "In the middle of a recession, shouldn't be surprising that steel prices are low," says Robert C. Cassidy Jr., partner at Wilmer, Cutler & Pickering Washington-based law firm that represents European steelmakers.

BRIEF RESPIRE. Whichever side is correct, it's doubtful that Big Steel has found a lasting cure for its problems. Even if domestic companies win the preliminary trade rulings as expected, winning the final one will be far harder, since they must prove that imports have hurt them. In the meantime, the European Community has just announced that it will pour \$1.1 billion into restructuring European big steelmakers—which will only make them more competitive.

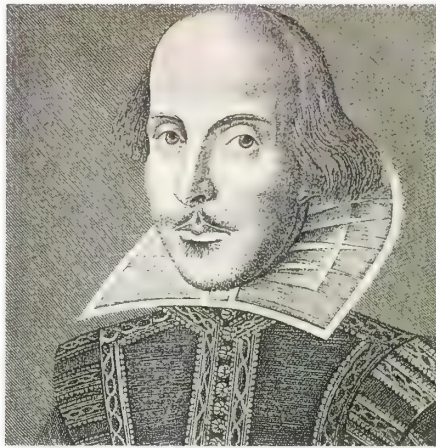
Worst of all, Big Steel's trade war has distracted it from dealing with its other nemesis: domestic minimills. Charlotte (N.C.)-based Nucor Corp., the biggest U.S. minimill, has just opened its second flat-rolled steel mill, in Hickman, Ark., and vows to take 20% of the U.S. market by the end of the 1990s. Other minimills also promise new flat-roll mills. In short, even if foreign rivals are forced into retreat, Big Steel may be back singing the blues before long.

By Maria Mallory in Pittsburgh



"Electrifying idea, my boy."

Benjamin Franklin



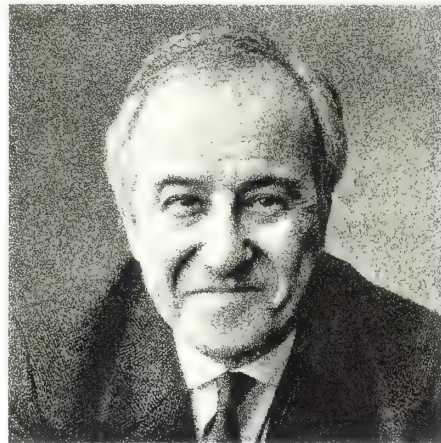
"Thou art a superb writer."

Shakespeare



"Music to my ears."

Wolfgang Amadeus Mozart



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TEACHING COMPUTERS TO TELL A 'G' FROM A 'C'

Handwriting-recognition gear may become a billion-dollar market

For years, clerks at American Express Co. laboriously typed the handwritten numbers on every charge slip into data-processing equipment. Then, six months ago, the financial-services giant finished installing optical character readers that can decipher and process 60% of the 900,000 slips that each day pass through AmEx' two processing centers, in Phoenix and in Fort Lauderdale, Fla. The remainder—which even humans have trouble figuring out—are handled by clerks. The system, installed by TRW Inc., cost more than \$10 million, but it is expected to pay for itself within four years. Says Cliff Dodd, an AmEx senior vice-president in Phoenix: "It is critically important to us."

As pleased as AmEx may be with its state-of-the-art equipment, computer-aided handwriting recognition is a technology that is just learning to crawl. A variety of writing styles, combined with sloppy or incomplete penmanship, continues to stymie scientists' efforts to devise machines that can decode every scrawl. "It's really one of the more difficult problems in computers," says Gregory K. Myers, a manager involved with SRI International's research into the area. "People don't appreciate just how difficult this is."

HUGE SAVINGS. If they can advance the technology, however, a wide range of companies—from AT&T to Hughes Missiles Systems—expects to reach a huge new market. Banks, insurance companies, and government agencies are sure to be interested in handling their paperwork more efficiently. The technology is also important for pen-based computers, which have to decipher words written with an electronic stylus instead of a keyboard. "The mar-

ket could be in the billions," says Charles L. Wilson, a manager at the Commerce Dept.'s National Institute of Standards & Technology, which is conducting research in the field.

Already, the Internal Revenue Service uses a system that reads handwrit-

addresses. The Postal Service foresees huge savings: It costs \$3 for automatic processing of 1,000 letters, compared with \$35 by hand.

Today's most advanced commercial systems, like the one at AmEx, are better at reading legible handwritten numbers and letters in predefined forms—such as charge slips. That gives the computer an edge: It knows exactly where to look. Copping with a handwritten address is a bigger challenge. Though the Postal Service has equipment that can read mostly typed or printed envelopes, the systems are often stumped by handwritten street names, numbers, and Zip Codes. And when they can decipher the characters, they work at the painfully slow rate of about one address per second. The Postal Service wants to reach the speed of 12 complete addresses per second.

ZIP CODE. Making computers into speed readers involves a variety of technological strategies. At the State University of New York at Buffalo, researchers are working on computer programs that place a character in context. Given an address in Washington, D.C., the machine might have trouble if the first two zeroes of the Zip Code 20005 are looped together, making it hard to tell if they should be 00 or 0. But it may see that the word before the Zip Code begins with a "D," and recognize that this designates the state. Using a data base of addresses and Zip Codes, the system would find that there are no codes with a 6 in the middle position in the District of Columbia or states beginning with D. Hence, it concludes the number is 00.

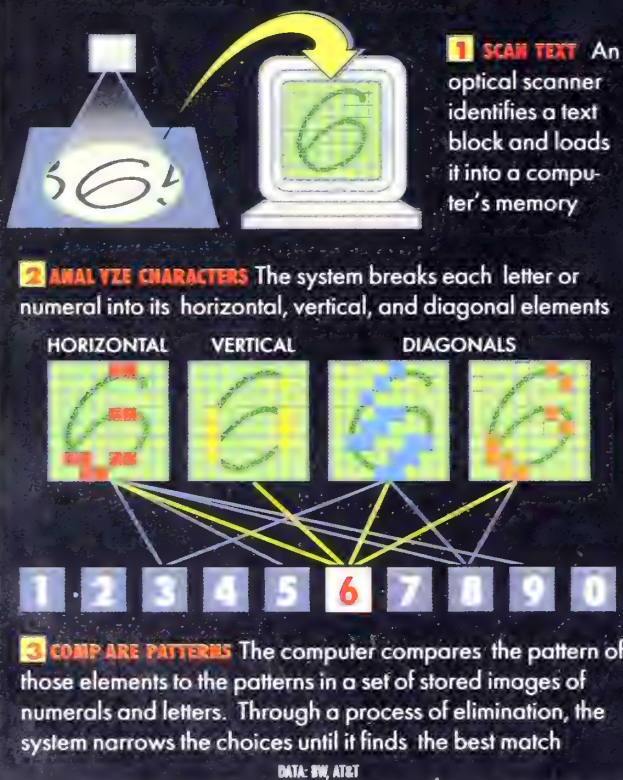
So far, this system can read an address and Zip Code only 30% of the time, though it can decipher the Zip Code alone 75% of the time. The Postal Service, which is helping fund the work, might begin implementing the technology once the success rate for addresses

gets up to 50%. Sargur N. Srihari, a SUNY Buffalo computer science professor, expects to hit 50% in the next two years.

At AT&T Bell Laboratories, nearly two dozen researchers are trying a different technique, "neural networks": a series of small computer programs, or d-

HOW A COMPUTER TRIES TO DECIPHER YOUR HANDWRITING

Engineers are building systems that use pattern-recognition techniques to read handwritten addresses, insurance forms, tax returns, and the like. Here's one approach:



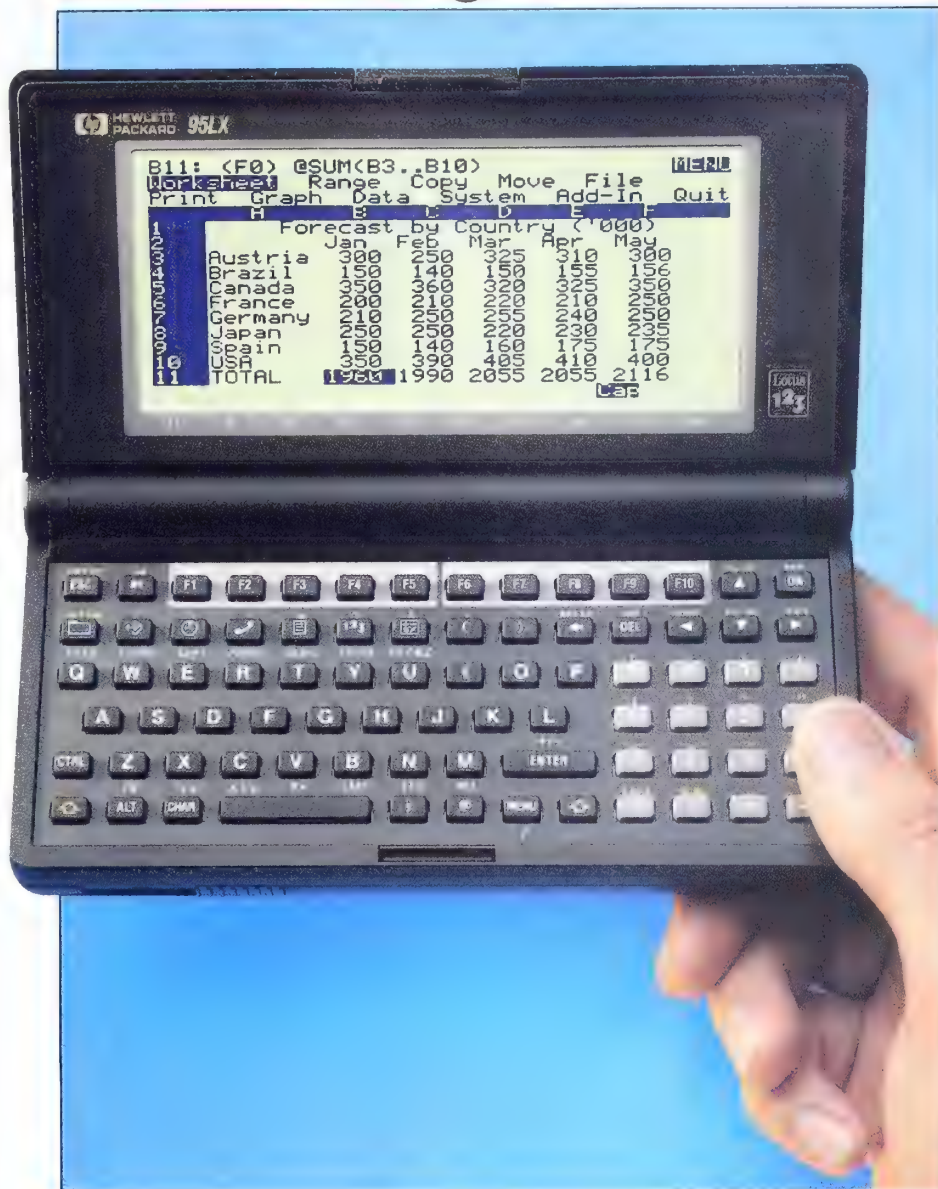
ten 1040EZ forms. And in 1994, the IRS plans to award a \$1 billion contract for technology that will enable it to scan all tax forms by computer by the year 2000. But the biggest potential customer of the technology is the U.S. Postal Service, which handles 555 million pieces of mail a day, 20% of it with handwritten

ithms, that work together to try to
nic the brain. In the first stage, the
puter is shown different characters
told what they are. The network
n sets up parameters that define
se characters. To read addresses, it
aks letters or digits into parts (dia-
m). The number "6" would be broken
n into horizontal, vertical, and diag-
l strokes. If these components fall
hin parameters the system has
ned, it concludes the number is 6.
One benefit of the neural-network ap-
ach is that the system keeps learn-
t continually adds new variations to
store of parameters for each letter or
neral. For example, it quickly learns
recognize a European-style numeral 7
n though it was never taught that a
ight contain a horizontal slash. "We
e a long way to go before we ap-
ach the performance of a human be-
" says Bell Labs researcher Charles
Stenard, "but we're light-years ahead
where we were a year or two ago."
eed, the lab is working to apply the
nology to a related problem: deci-
ring license plates on cars whizzing
at high speeds. That would enable
police to find a particular car by
cking the plates on all passing cars.
ard says highway agencies are inter-
ed in testing the system.

PALL. At Hughes, engineers have
e far afieid to solve the handwrit-
challenge—to the pattern-recognition
nology smart bombs use to find tar-
s. Instead of trying to isolate and
gnize individual characters, the sys-
is designed to analyze and identify
er patterns, shapes, lines, or combi-
ions of lines. That helps it ignore
atched-out words, for example, and
es it more accurate than existing
ems that try to recognize individual
ers, says Carol D. Campbell, who
ds Hughes' efforts to adapt military
nologies for commercial markets.
he challenge of decoding human
dwriting is important for new pen-
ed computers, too, but these ma-
es have an advantage. The computer
atching" as the person writes—so it
pick up clues from the sequence of
strokes and identify where the writ-
ifts the stylus between words. And
computers don't have to be as
edy as mail-sorting machines. Still,
haven't yet been able to master
ling even careful penmanship.
andwriting recognition machines
never be able to decipher every
or's prescription. But if researchers
tain their current pace of progress,
etime later this decade, perhaps,
le may be able to buy the high-tech
ivalent of pharmacists—computers
can read all but the most illegible
wls accurately and quickly.

By Mark Lewyn in Washington

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CALIFORNIA CLEAN ROOM: JAPANESE RIVALS ARE RUNNING SHORT ON CAPITAL

CHIPPING AWAY AT JAPAN

Silicon Valley is finally rallying—and consolidating its gains

The U.S. is losing its technological edge! The Japanese are eating our lunch! Just look at the chipmaking industry!

Yeah, just look. Through most of the 1980s, U.S. semiconductor equipment companies suffered startling losses to their Japanese rivals. But now, the Americans are showing strong gains. In 1992, U.S. companies will increase their revenues by 17%, to \$5.5 billion, for a 53% share of the worldwide total, according to market researcher VLSI Research Inc. And Japan's revenues will drop 13%, to \$3.9 billion, or 38% of the total. Moreover, Applied Materials Inc. in Santa Clara, Calif., may edge out Tokyo Electron Ltd. as the world's largest supplier of chipmaking equipment. Not only are U.S. chipmakers now buying most of the equipment for their new plants from American suppliers but even Japanese companies are purchasing more U.S. equipment. "If you told people that in 1989," notes VLSI President G. Dan Hutcheson, "they looked at you like you were crazy."

HOT WATER. The turnaround started when U.S. companies and the federal government began—belatedly—to take the Japanese threat seriously. In 1981, there was one Japanese semiconductor equipment maker in the top 10. Today,

four of the five top makers in the highly fragmented industry are Japanese. "We allowed it to really get out of control," says Hutcheson. "But then people got back to work, and Silicon Valley was no longer a place where people went home at 3 and got into the hot tub and drank wine." The industry began to focus on quality and set up Sematech, a \$200 million-a-year research consortium in Austin, Tex., half funded by government.

Meanwhile, the Japanese suppliers have been hard hit by recession at home. Japan's chip business has slid some 12% this year, to \$18.4 billion, according to the Semiconductor Industry Assn. That means Japanese companies can't afford to invest as heavily in new equipment (chart). The U.S. chip business, by contrast, grew about 14% this year, to \$17.6 billion.

Still, it will be tough for U.S. companies to win back some key areas. Nikon, Canon, and Hitachi lead the market for wafer steppers, which lay a circuit pattern onto a silicon wafer. U.S. compa-

nies, such as Silicon Valley Group Inc., are leaping back in with products developed with Sematech help. But because the equipment is so complex, "it would take me a year's worth of work to switch," says Billy D. Walker, who runs a Motorola Inc. chip plant.

U.S. companies have held other parts of the market. Applied Materials is a leader in chemical-vapor deposition (CVD) equipment, which deposits layers of metal on a wafer, and in etching equipment, which carves the circuit lines on a chip. For Applied's fiscal year ended Oct. 25, its revenues were up 18%, to \$751 million, and its profits rose 51%, to \$39.5 million. Aided by Sematech funds, Lam Research Corp. in Fremont, Calif., an etching-equipment maker, is also growing strongly. Revenues for the quarter ended Sept. 30 were up 21%, to \$49.4 million, and earnings jumped 50%, to \$3.1 million. "Sematech has been a major factor in our success in the last couple of years," says CEO Roger D. Emerick.

Some chipmakers agree. A few years ago, Intel Corp. predicted it would be buying 70% Japanese equipment by now. Instead, 60% of the \$300 million worth of new equipment going into an expansion of a Silicon Valley plant will be from U.S. companies. Intel credits Sematech with helping the turnaround. And Motorola's Walker says his plant buys 88% American equipment, up from about 75% a few years ago.

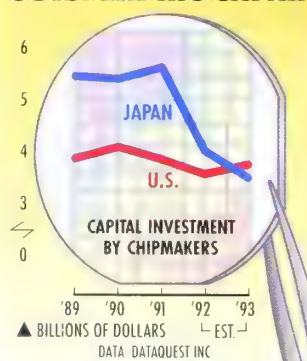
SWAN SONG? Still, Sematech's future could be in doubt. Some members say its biggest impact has been setting standards and getting suppliers and customers to work closely together. But that may not justify membership fees of 1% of revenues. Micron Technology Inc. and LSI Logic Corp. have dropped out. And Sematech has decided to re-evaluate its charter. "Nothing is sacred," says Executive Vice-President M. Frank Squires.

By the time Sematech's budget comes up for review next year, the U.S. industry should be on even stronger ground. The Japanese equipment

makers may be recovering too, but analysts believe U.S. manufacturers can hold most of their lead. Now that quality is up, it's just as hard to switch from an established American source as it is to change from a Japanese supplier. That's an outcome the doomsayers couldn't have predicted in 1989.

By Richard Brandt in San Francisco

OUTSPENDING JAPAN



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Developments to Watch

ED BY WILLIAM D. MARBACH

CALIFORNIA ROBOTS MAY SOON T THE ROAD



Driving in California could soon mean seeing signs that say "Robots Working." The California Transportation Dept. and the University of California at Davis are developing robotic road-maintenance systems that may save money, reduce congestion, and prevent worker accidents. The first robo-repairer, which should be road-ready next year,

uses lasers to spot cracks between the pavement and the shoulder. It then dispenses the right amount of patch material. A single worker can operate it.

Next year, Caltrans plans to test an unmanned machine, based on technology developed for the military, that would combine a hovercraft and a video camera to inspect bridges. Other highway robots on the drawing boards would restripe traffic lanes and identify hazardous materials from a safe distance. Caltrans project manager Thomas West says such machines may be critical to keeping roads in good enough shape to handle ever-increasing traffic.

FETAL-CELL TRANSPLANTS MORE AGAINST PARKINSON'S

For years, scientists have hoped to cure some intractable diseases of the brain by using cell transplants. In Parkinson's disease, for example, they hope the replacement cells will release dopamine, a key substance the diseased brains lack. But such treatments are controversial because the best candidates are still-malleable cells from fetal brains. Anti-abortionists fear use of fetal tissue would spur abortions, and in 1988 the U.S. banned using federal funds for the research.

By using private funds, some scientists have continued cell-transplant research. In the Nov. 26 issue of the *New England Journal of Medicine*, three groups of scientists report promising results. Yale physicians said three of four patients they treated experienced "real benefits in the activities of daily living." Seven patients at the University of Colorado showed significant improvement. And two people who had taken drugs to induce a Parkinson-like rigidity improved dramatically in a Swedish-American collaboration. The researchers don't know how long the positive effects last, but the results offer hope these brain diseases might be treatable.

RUSSIAN MICROWAVES MAKE MONEY FROM POLLUTION

Russian technology may help the U.S. oil and gas industries overcome an environmental headache—and save hundreds of millions of dollars. Russia's Kurchatov Institute in Moscow has developed a way to use low-energy microwaves to break down hydrogen sulfide, a noxious gas that is a waste product of refining and a contaminant in natural gas. The process yields sulfur, which can be recovered and sold, and

hydrogen gas, which can be used as a fuel. Now, oil refiners and gas producers can recover sulfur, but there's no technology yet to recover the hydrogen.

Through a new joint research venture, American scientists will help the Russians commercialize the process. The U.S. team consists of Argonne National Laboratory in Illinois, Wavemat Inc., a Plymouth (Mich.) microwave equipment manufacturer, and Acid Rain Control Inc., a Detroit startup. Argonne scientist John Harkness estimates that if every U.S. refinery used the process, the U.S. would save the equivalent of 70 billion cubic feet of natural gas a year.

NOW, DATA CAN HITCHHIKE ON TV SIGNALS

In the next few years, more and more traffic will crowd the nation's information highways. Hospitals will transmit X-ray images to specialists hundreds of miles away, students will tap into distant research libraries, and executives will log into computer networks from home. But for this to happen on a grand scale, faster data communications are needed. Although fiber-optics will be a huge improvement, it will be decades before U.S. homes and businesses are fully connected.

Researchers at WavePhore Inc., a Phoenix startup, have developed a way to ease the bottleneck: a method for sending data on TV signals. At the transmission end, a \$15,000 encoder compresses video data and inserts it into the TV signal. Then, with a \$3,000 decoder, anyone who receives the signal—either through the airwaves or cable—can read the data. Within a year, predicts Charles Jungo, WavePhore's director of engineering, the system's speed—384,000 bits per second—will be increased to 1.5 million bits per second. Company executives envision myriad uses, such as doubling the number of movies a cable company can offer and bringing CD-ROM libraries and local-area networks to the home. "What we've done is to open up broad-band communications at low cost," says Jungo.

CLEANER CLOTHES FROM WORMS

Call it a clean case of serendipity. Harold L. Griffin, a chemist at an Agriculture Dept. lab in Peoria, was looking for a way to convert straw and other farm waste into fertilizer. He hit upon the idea of using bacteria that live inside marine shipworms. These bugs have enzymes that can break down cellulose in wood and straw and can grab



nitrogen from the air and make fertilizer-like substances from it. But the experiments didn't go as planned. Before the enzymes could work, they were destroyed by a protein-degrading enzyme, or protease, also made by the bacteria.

Instead of giving up, Griffin decided this protease would be good for a different purpose—laundry detergent. The shipworm enzyme works tirelessly in hot or cold water to scrub out protein-based stains, such as those left by blood or milk. It even works with bleach. Griffin is now collaborating with four detergent companies to scale up the process he developed for growing the bacteria and isolating the enzyme.

THE HOLE OF A NEW MACHINE

Where's Steve Chen's breakthrough supercomputer?

Cloak the creation of an exotic new product in mystery, and excitement and anticipation will build for its eventual debut. But stretch out the mystery too long, and anticipation can sour into skepticism—or worse, apathy. Just ask Steve S. Chen.

In 1987, the celebrated Chinese-born supercomputer designer left Cray Research Inc. to pursue his dream of building a new generation of ultrahigh-per-

as Cray Research's top-of-the-line C90 rely on a relatively few highly specialized processors to perform calculations at lightning speed. Their exotic chips are costly to build and run so hot that they need elaborate liquid cooling schemes.

At this point, wringing more speed from vector technology costs tens of millions of dollars in research and development. Supercomputer legend Seymour S. Cray is trying by using a chip material

Cray Research plans to start shipping MPP machines next year.

Even if he gets to market in 1990, Chen will find the going tough. Cray Research continues to dominate. Fully 58% of the world's vector supercomputers are Crays. And determined Japanese makers NEC, Hitachi, and Fujitsu are coming on strong in vector machines. "It's a mature market, a zero-sum game," says Gary Smaby of the Smaby Group, a market researcher.

Still, Chen displayed no sense of urgency when addressing a supercomputing conference in Minneapolis on Nov. 15. Instead of describing his creation, Chen gave a general talk on supercomputing. Asked by his audience for technical details, he said, smiling: "I don't think I'm supposed to do that." O.K., but when might he announce a working prototype? "My answer is very simple: soon. How soon? 'Very soon.'" Said Paul M.

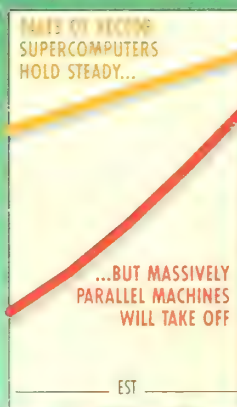
sina, director of the Concurrent Supercomputing Consortium at California Institute of Technology: "I was expecting a bland speech, but maybe not that bland."

PEAK PIQUE. Chen defends his continuing reticence, saying: "You promise too much, you get killed." But he also may be trying to lower expectations. For example, he now criticizes competitors for overemphasizing theoretical performance levels. And he slips that his machine now bears



CHEN: INSTANT OBSCOLESCENCE?

A TALE OF TWO ARCHITECTURES



formance computers. At Cray, Chen had helped create the world's fastest computers. But the market leader could not afford to fund his most ambitious plans. IBM, seeing an opportunity to improve its standing in scientific computing, stepped forward to help out. Five years and an estimated \$100 million-plus in IBM funding later, though, and Chen's Supercomputer Systems Inc. (SSI) has yet to show a working prototype. And now, a newer class of supercomputer threatens to make Chen's machine obsolete before it even gets out the door.

How so? Chen has been working on a so-called vector architecture, a computer design nearly 20 years old that most experts think is approaching fundamental speed limits. Vector computers such

called gallium arsenide. He is several years behind schedule, though, and only recently got a prototype to run at full speed for more than a few hours at a time.

'ZERO SUM.' The alternative, which is drawing increasing support among key academic, military, and industrial customers, is a scheme called massively parallel processing (MPP). It spreads big computing problems over hundreds or even thousands of standard, low-cost, PC-class microprocessors. Such machines already top vectors in theoretical peak performance, and new programming techniques should help them eclipse vector machines for most "real-world" applications as well. So the big growth will be in MPP (chart), and even vector champ

tle resemblance to what he had proposed building at Cray—a system embodying many technical breakthroughs, including circuits interconnected by light beams.

Will IBM pull the plug on Chen? Not likely. The two companies have set up a small "marketing agency" at SSI, a handful of people led by an IBM executive. "We do count on SSI," says Irvin Wladawsky-Berger, IBM's assistant general manager for supercomputing. But IBM has other irons in the fire: At the Minneapolis convention it showed a prototype of a forthcoming MPP machine. A return on its huge SSI investment would be nice, but IBM's foray into supercomputing now seems to depend only a little on mystery man Steve Chen.

By Russell Mitchell in Minneapolis

ISRAEL

INVESTING FOR THE FUTURE



STATE OF THE ECONOMY

While most of the Western world has been struggling with a recession, the Israeli economy has performed considerably well this year. GDP growth is expected to exceed six percent in 1992, based upon an increase in industrial production, a sharp rise in exports and a boom in tourism. In addition, for the first time in nearly 20 years, Israel stands a good chance this year of achieving single-digit inflation.

The economy received a major boost last summer, when the U.S. administration approved Israel's request for \$10 billion in loan guarantees to finance the absorption of Soviet Jewish immigrants. According to government forecasts, 80,000 immigrants will arrive in the country during 1993 and 200,000 in each of the next three years.

The money raised with the U.S. loan guarantees will be used to finance major infrastructure projects, as well as the purchase of machinery and equipment by the private sector for new investments.

Since the new labor government, headed by Yitzhak Rabin, took power, Israel has enjoyed vastly improved relations with both the U.S. and Western Europe. At the same time, Israel's negotiations with its Arab neighbors over a solution to the Middle East conflict have gained momentum. This improvement in the political climate is expected to open more investment and trade opportunities for the country.

The labor government remains committed to free enterprise and economic reforms and has stated that it intends to continue the liberalization of Israel's capital, financial and foreign currency markets. The government recently reappointed a ministerial committee, headed by the prime minister, to oversee the privatization of state-owned companies and approved a list of proposals designed to open the market to greater competition from imports, as well as break down monopolies and cartels. Within the next few months, the government is expected to announce a major reform of the tax system.

ISRAEL'S TRADE AGREEMENTS

Since Israel is the only country in the world to enjoy free trade agreements with both the U.S. and the European Community, it serves as an ideal stepping-stone for businessmen interested in

penetrating either of these giant trade blocs. Recently, Israel signed a free trade agreement with the European Free Trade Association (EFTA), which will take effect on January 1, 1993.

The 1975 free trade agreement between Israel and the EC provides for the establishment of a free trade area for industrial products and reduced customs duties on specific agricultural products exported from Israel to the EC. As a result, Israel's industrial exports to the EC benefit from preferential status over those from the U.S., Japan and other developed countries outside Europe, which are subject to full customs duties and other trade restrictions.

Negotiations are underway to revise the 1975 agreement, in order to provide better access for Israeli high-technology products into the European market and to expand the list of agricultural products eligible for reduced customs duties in the EC.

Almost all Israeli exporters



Tablet manufactured under stringent G.M.P. conditions, by Teva, Ltd., Israel's largest pharmaceutical group.



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benefit from the 1985 free trade agreement between Israel and the U.S. and, although tariff and non-tariff barriers still apply to a list of import-sensitive products, they are scheduled to be lifted in January, 1995.

In addition to its trade agreements with the U.S., EC, and EFTA, Israel has recently signed "trade normalization" agreements with most of the countries in Eastern Europe, and with China. As part of the agreement with China, Israeli exporters now enjoy "Most Favored Nation" status in the Chinese market.

WHY INVEST IN ISRAEL?

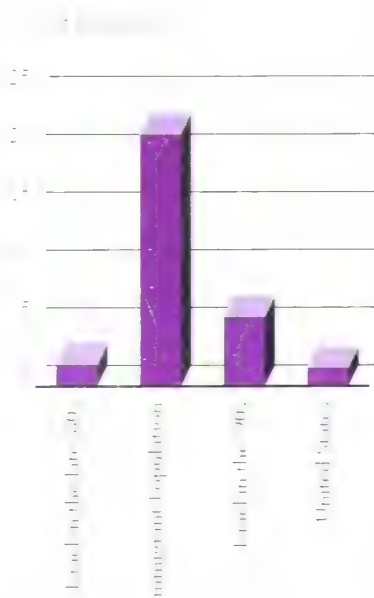
Close to 300 foreign firms, including multinationals like IBM, Motorola, Intel, National Semiconductor, Digital, and Vishay, have investments in Israel. According to Gad Soen,

Director of the Israeli Ministry of Industry and Trade's Center for Business Promotion, what has drawn these companies to Israel is, first and foremost, the country's highly-skilled and talented labor force.

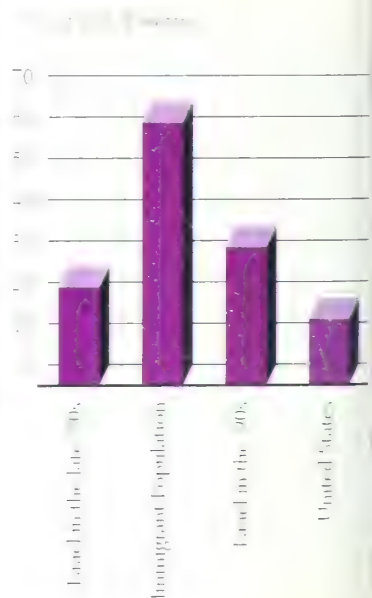
"We certainly can't compete with Thailand, Indonesia or the Philippines when it comes to cheap labor," says Soen. "But there is no country in the world that can compete with us in terms of our high concentration of scientists and engineers."

Another key advantage, he notes, is "time to market" - the time from when an idea is put forward until the product is on the market. If the Research and Development (R&D) stage in the U.S., for instance, is one year, in the Israeli subsidiary of the same company, it is eight or nine months.

Engineers as a Proportion of Total Population



Highly-Skilled Manpower as a Proportion of the Total Workforce



Soen points out that a large proportion of Israel's scientists and engineers have studied or worked abroad, many in Silicon Valley.

"During their time in America, these Israelis have absorbed the American culture and mentality, which becomes an incredible advantage for American companies with whom they later have business dealings," he notes.

In recent years, he adds, Israel has developed another important and unique advantage: its ties with Eastern Europe and the former Soviet Union.

"These countries see us not only as a source of technology, but also as the gateway to

Western markets," Soen says. "This facilitates our access into these markets, and naturally, American companies with subsidiaries in Israel can benefit from these ties. What's more, Israel is perhaps the only country in the world with hundreds of thousands of people, including top scientists and engineers, who know the language and culture of Eastern Europe and the former Soviet Union."

Aside from skilled manpower, says Soen, Israel also has a broad base of research institutes, such as the Technion and the Weizman Institute of Science, as well as an attractive package of investment incentives.

TOURISM-A SHINING STAR IN THE ECONOMIC GALAXY

Tourism is emerging as one of Israel's fastest-growing industries. During July of this year, 173,000 visitors came to Israel, 27 percent more than the previous year and 15 percent higher than in 1990.

"I believe that our heavy promotion and advertising have had a tremendous impact on tourism to Israel," says Raphael Farber, Israel's Consul and Tourism Commissioner for North America.

The tourism industry is also one of the most profitable sectors of the Israeli economy. Tourism is an export industry,



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contributing to the reduction of the country's trade deficit by adding \$1.8 billion annually to the Israeli treasury. The industry, which employs close to 100,000 people, is a tool for development of various regions in Israel, as well as a way of showcasing the country.

In addition to its spectacular historic and cultural offerings, Israel is the Holy Land for the world's three monotheistic religions. The country's beaches and ever-increasing recreational opportunities are also attracting visitors. Marketing campaigns to increase the number of tourists from the Far East are underway, as are those aimed at evangelical Christians.

Israel's Minister of Tourism, Uzi Baram, notes that the country's infrastructure will be expanded to accommodate a tourist target of three million in 1995. New hotels with American international hotel management companies, restaurant chains, and shopping malls, as well as new attractions for second-time visitors, are being planned. Other efforts have been stepped up to turn the Dead Sea area into a major spa center, and to work with Egypt, Turkey and Greece to promote Eastern Mediterranean tourism.

El Al, Israel's national carrier, has recently made a \$450 million investment in new

equipment and has brought the number of its U.S. gateways to seven with recent additions of Baltimore/Washington and Dallas/Ft. Worth. The airline, proud of its role in transporting Russian and Ethiopian immigrants to Israel, its experienced workforce and its high levels of security, is committed to helping promote regional tourism.

"Recent indicators are showing that there is tremendous opportunity to have the Middle East as one of the foremost tourist attractions of the world," suggests Leon Hasdi, vice president and general manager for El Al in North and Central America.



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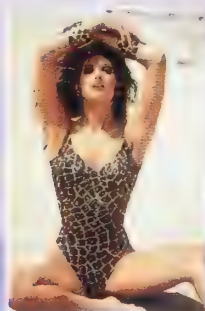
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Israel has 2-3 times more scientists and engineers engaged in R&D per capita than any other country in the world. In addition, over 50% of the wave of immigrants arriving from the former Soviet bloc are scientists, professionals, engineers and technicians.

Israel's stable, highly skilled, motivated workers are available at salaries that are 20 to 30% lower than in the United States.

The Perfect Environment for R&D

Israel's talent for innovation and creativity is a magnet for overseas investors. Numerous Israeli high tech companies are pioneers in their field, and have translated their inventions into profitable businesses that are now listed on U.S. stock exchanges. Israel has world-renowned R&D centers which cooperate closely with industry, scaling up research into commercial applications. And Israel has a track record for getting products to market faster giving you a competitive edge.

Israel's government supports R&D with generous funding. Binational endowment funds serve as additional sources for R&D funding.

A Bridge to Major Markets

Israel has free trade agreements with the United States, the European Community and EFTA. This is the source of profitable trade in industrial and consumer goods.

Israel is also an excellent launching point for trade with emerging markets in Eastern Europe and what was formerly the Soviet Union. Israeli experts speak the languages prevalent in these growing economies, and know how to structure profitable business deals in their particular environment.

A Developed Infrastructure

You'll find that Israel meets the standards you're accustomed to. It has advanced international financial, accounting, insurance and legal systems, modern roads, sea and airports, and modern communications and telecommunications networks.

Throughout the country, Israel offers competitively priced industrial facilities and parks supporting every type of industrial venture.

Government Incentives and Benefits

Several programs of incentives are available for investors and venture capitalists. They include generous investment grants, government loan guarantees, tax exemptions, a venture capital fund for high risk enterprises and numerous other substantial benefits.

Let's Get Together

***It all adds up to unique human resources, R&D,
government incentives and trade agreements. Start
making plans today to become a partner in a
country geared for profitable growth.***

Israel - A powerhouse of opportunities

**INTERVIEW WITH
FINANCE MINISTER
AVRAHAM SHOCHAT**

Q: What measures is the new labor government undertaking to promote investments and growth?

A: The 1993 budget proposal recently approved by the government is designed to encourage investment in the following ways: first, it calls for a significant reduction in the deficit, in order to make it easier for private investors to borrow on the capital markets; second, there's a substantial increase in government spending on infrastructure projects, which should create better conditions for investments

and third, for political reasons, the new government has dramatically reduced spending on construction - particularly in the West Bank - making funds available for tax cuts. Because of this political act, the U.S. government also finally approved our \$10 billion loan guarantee request, which should provide a boost to the economy.

We hope that the more positive political climate prevailing in the region since the new government has taken over will also attract foreign investors who had been previously wary about putting their money into this area. I, for one, am beginning to feel a new openness on the part of international businessmen to our economy.

Q: What can Israel offer foreign

investors that other countries cannot?

A: One key attraction is our free trade agreements with major economic blocs in the world: the U.S., the EC and the EFTA.

Israel also offers investment incentives such as tax breaks,



*Abraham
Shohat*

government grants and government loan guarantees.

Q: How will the U.S. loan guarantees affect the economy?

A: Perhaps most importantly, they provide a signal to the international markets that Israel will not suffer from any shortfall in foreign currency reserves in the coming years, no matter how large our balance-of-payments deficit grows. The loan guarantees will also enable us to raise money abroad for investment projects at very good terms.

Q: Which industrial sectors are expected to contribute most to export growth in the coming years?

A: I would say chemicals, textiles, and, of course, electronics. At the same time, we anticipate that military exports will drop because of the downturn in the world market. Another extremely important source of foreign currency revenues in the coming years will undoubtedly be tourism.

A Healthy Profile:

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- ▣ One of Israel's top 10 industrial companies.
- ▣ High yield, low cost, R&D programs targeted at innovative niche market, supported by close ties with Israeli research institutions.
- ▣ Teva's shares are traded on the Tel Aviv Stock Exchange since 1951 and on NASDAQ (TEVY) since 1982. Over 50% of shares held outside of Israel.

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June 30, 1992**

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Corporate headquarters:
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INTERVIEW WITH INDUSTRY AND TRADE MINISTER MICHA HARISH

Do you anticipate an increase in foreign investments in Israel because of the more positive political climate in the



*Micha
Harish*

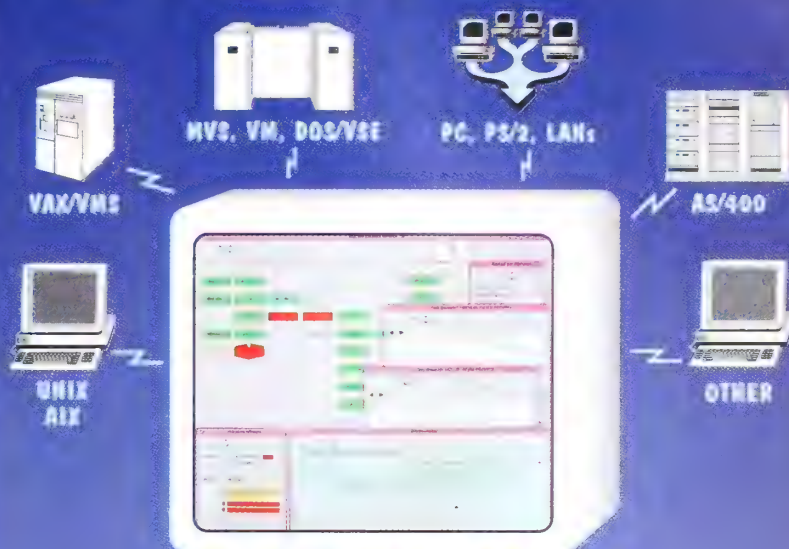
region?

Absolutely. There's an incredible amount of interest in Israel both among countries with whom we have traditionally enjoyed good economic relations, like the U.S. and those in Europe, and among countries which had previously been problematic, particularly those in the Far East. At the same time, there's a feeling that international businessmen today have more confidence in the ability of Israel's new leaders to manage the economy.

How do you explain the fact that Israel is one of the few countries in the world today enjoying a healthy rate of export growth?

Firstly, many of our key industries have undergone major modernization and streamlining programs in recent years. At the same time, they have also invested considerably in marketing abroad. Another

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Here are a few highlights:

- Exports have grown at a compound rate of 15% since 1986.
- The company holds leading domestic market share positions: 80% on coffee and 60-80% in most major confectionery categories.
- An aggressive capital investment program has established **Elite** as a world-class low-cost high-quality food processor.
- As a result of superior product quality and Israel's free trade agreements with both the U.S. and Europe, **Elite** is positioned to continue to rapidly expand export sales.
- The company is already a private label supplier of such well-known stores as Marks & Spencer and Tesco in the U.K.; LeClerc in France, Pathmark and Rite Aid in the U.S.; and Hema in Holland.
- **Elite** also markets food/beverage products in Israel for a number of leading multinationals, including RJR/Nabisco, Martini & Rossi, and Amstel.
- Recently **Elite** has capitalized on its high brand recognition by expanding into pastas and snack foods.

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key factor has been the decision to specialize in areas in which Israel has a comparative advantage, particularly high technology. I should mention here that there are certain products where we have become the leading suppliers in the world market. In other so-called traditional industries, like textiles, we have made an effort to concentrate on more up-market products, where the emphasis is on design rather than cheap labor.

Q: Will there also be new incentives for exporters?

A: Rather than particular incentives, I foresee a change in our overall policy regarding exports, where key emphasis will be placed on improving export profitability through such measures as tax reductions. In addition, we plan to concentrate on opening up new markets to the Israeli exporter by providing government financing to subsidize marketing campaigns abroad, as well as initiating trade negotiations with various countries around the world.

INTERVIEW WITH UZIA GALIL CHAIRMAN OF THE BOARD ELRON ELECTRONICS

Widely regarded as the "father of Israeli high technology," Uzia Galil helped found Elron Electronic Industries 30 years ago. Today Elron is a multinational holding company, with aggregate annual sales exceeding \$550 million.

The Elron family includes

well-known names like Elscint, a world leader in medical diagnostic imaging; Elbit, a top Israeli exporter of defense electronics; Fibronics Ltd., the Israeli subsidiary of the U.S. multinational; and Optrotech, leading world supplier in the



Uzia Galil

printed circuit board industry. Shares in all these companies are traded in the U.S.

Q: Where does the future lie for Israeli high technology?

A: Looking ahead, our industries will have to take into account two key trends: the globalization of the world market and the pressing need to create jobs for the huge influx of immigrants into the country. Our biggest challenge, therefore, becomes gaining access to new market segments. If in previous years, our whole approach was to seek technological excellence and adapt it to the market, today we have to first seek out the market, and from there go back and develop the relevant technologies. At this point, developing any technology in Israel is no longer a problem. What we have to do is find the markets to feed these technologies into, thereby creating the jobs that are needed.

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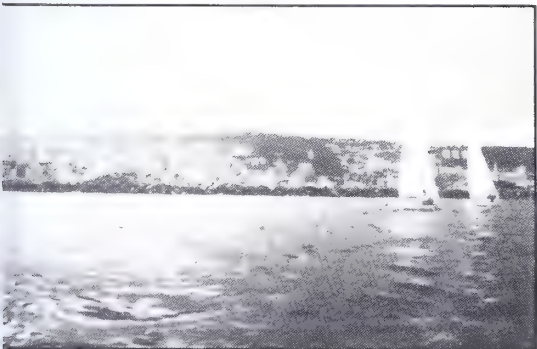
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If we really want to create jobs, we have to put a lot more effort into building strategic alliances, joint ventures, and mergers with companies abroad so that we can get a foothold into new big markets.

Q: What type of markets should be sought out?

A: I'm not talking about markets in the geographical sense, but markets in terms of types of products. Until now, Israel has made an international name for itself in fields like defense and medical equipment. But let's take the example of consumer goods, a field in which Israel has not yet achieved notable success in the world market. As I see it,

in the coming years, it will be possible to take the technologies we have developed and applied in defense and other industries to consumer goods as well and thereby gain access to new markets. Our subsidiary, Elbit, has already taken a step in this direction, moving into the television market, where we expect to become more and more sophisticated in the coming years.

EXPORTS AT THE FOREFRONT

For Israel, exports have become synonymous with growth. At one time, it was agricultural produce and basic industrial products that dominated the country's export basket. Today high tech-

nology has taken the lead.

The growth of Israel's science based industries, notably electronics, began in the 1960s with the establishment of an extensive infrastructure for defense production. Over the years, the proportion of defense products in total exports has declined, as many companies have discovered new civilian applications for military technologies.

Israeli companies that today rank among world leaders in their fields are Optrotech and Orbot, which claim nearly 70 percent of the world market for advanced automatic optical inspection systems of printed circuit boards; Elscint, a leader in medical diagnostic imaging;

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and ECI Telecom, which dominates the world market for digital circuit multiplication equipment with a 70 percent share. There's no doubt that Israel's added-value lies in high technology," says Dov Tadmor, managing director of Discount Investment Corporation. "We have no natural resources, we can't compete with the Far East in terms of cheap labor, and we don't have a large enough market to support industries such as automobiles or heavy machinery. The only real advantage we have is brainpower." Discount Investment Corporation of the IDB Holding Group has interests in some of Israel's leading exporters, among them Scitex, a leading world manufacturer of computer imaging systems for the publishing industry; Elbit, a manufacturer of defense electronics, and Elcom, a machine-tool producer. "The key to success for most of Israel's leading exporters, says Tadmor, has been a combination of understanding the world market, technical expertise and management competence. For companies like Scitex, success has also meant attracting the right strategic partners. This year one of the U.S.'s leading public companies, International Paper Co., purchased an 11 percent holding in Scitex for \$209 million. Elcom Electronic Industries, which also holds a stake in Scitex, is an example of a holding company that has emphasized diversification between mature and start-up investments in the fields of electronics, electro-optics, telecommunications,

computerized graphics and medical sciences. According to Managing Director Akiva Mayer, Israel's high-technology industries are gearing up for a new wave of expansion.

"In December 1985, Scitex employed about 2,000 workers and had annual sales of \$120 million. Last year, we once again employed 2,000 workers, but our sales were up to \$400 million, which shows that we've also become more competitive in terms of costs," he says.

Shares in Israeli high-tech companies, traded on Wall Street, have outperformed their U.S. counterparts virtually across the board. Foreign investor interest appears to have reached a new peak: a special fund set up in Britain to invest exclusively in Israeli companies raised close to \$100 million within a day, American venture capitalists have set up a unique joint venture with the government to invest in high-tech start-ups, and even Japanese investment banks are making their way to Israel looking for new

business opportunities.

Elbit is an example of an Israeli company that has aroused considerable interest abroad. A leading exporter of defense technologies, Elbit's strategy has been based on diversifying its business base, both by acquisitions in civilian sectors like medical diagnostics, and by finding new applications for defense technologies in fields like industrial systems, communications and video systems.

"We certainly have no intention of abandoning the defense market, but our future growth will come from other areas, too," says President Emmanuel Gill.

Israel's largest high-technology park, Matam, owned by the Haifa Economic Corporation, which has gained fame for being the home of Elbit, Intel, Elscint, Fibronics, Kulicke and Soffa launched an innovative new project: a "technological incubator" to promote new start-ups on its grounds.

"By exploiting economies-of-scale, we can provide the highest level of services to companies situated in the park," says



Avi Goldenberg, managing director of the Haifa Economic Corporation.

One of Israel's success stories in the field of computer software is 4th Dimension Software. The company specializes in the CONTROL family of integrated system software products, which automate many key functions of data centers of large organizations. Its products are licensed to users in 39 countries, including Aerospatiale, Boeing, British Telecom, Credit Suisse, Nielsen, Procter and Gamble, Sony, Texaco and Xerox. Its biggest client, EDS in the U.S., recently acquired two percent of its shares.

Managing Director Roni Einav believes Israel has a clear-cut advantage in the field of software: "Our ability to work in teams, to spend long hours on a single project and react quickly makes us much more productive workers."

Teva Pharmaceutical Industries, one of Israel's top 10 industrial companies has taken the opposite course: after establishing a strong foothold in the U.S. generic market, the company is now seeking out strategic alliances in Europe. In the past year, it has purchased a chemical producer in Italy, a marketing company in Germany, and it is now in advanced negotiations to buy into one of Hungary's leading pharmaceuticals manufacturer.

Israel's export success has not been limited to high technology alone. Even some of the more traditional industries such as food and textiles have enjoyed major breakthroughs in recent years due to new, advanced technologies into

their production lines. Elite Industries, one of Israel's leading food manufacturers and oldest established industrial concerns, exports its chocolates, sweets and snacks to Britain, the U.S., Canada, France, Poland, Sweden, Spain, Greece and the former Soviet Union. Exports have increased from \$7 million in 1989 to \$15 million last year and are expected to reach \$20 million in 1992.

"I think our key advantage is flexibility," says Managing Director Nathan Nissany. "Because of this flexibility, we can produce a greater variety of products and provide better service to our clients than many other companies."

INTERVIEW WITH
ITZCHAL KAOL, PRESIDENT
BEZEQ - THE ISRAEL
TELECOMMUNICATION CORP. LTD

Q. How would you characterize the mood and the outlook in the business community about Israel's economy?

A. It is my belief that Israel's economic standing in the West's business community is positive and will continue to improve. There are several reasons for this: the peace talks with our neighbors; a stable economy with a single digit and decreasing rate of inflation; trade agreements with the U.S. and the EC; a pool of outstanding expertise and knowledge due to the high standard of manpower, augmented over

the last two years by the absorption from the former Soviet Union of thousands of scientists, engineers and other professionals. All this makes Israel a place where money can be made.

Q. Why is Israel able to compete so successfully in the global marketplace in areas as competitive as telecommunications?

A. Israel's ability to compete abroad in the telecommunications field is illustrated by Bezeq's performance. In 1991, Bezeq's revenue was \$1.7 billion with a 7 percent return on equity. Bezeq ranks tenth in incoming telephone calls from the U.S. and fifth in data traffic to the U.S.

A five-year program implementing the most advanced technologies has been completed. Further investments of \$600 million annually are planned during the next five years.

Israel's geopolitical position and the dynamism of its economy required the constant development of international communications. This is a basic factor in competition ability.

Q. Are you confident that Israeli companies can continue to prosper and will continue to undergo privatization?

A. Israel believes in expanding the market-driven economy. The government is moving out of companies and services through a continuing process of liberalization and privatization. GNP grew by six percent last year, a very high rate by any international standard. ■

THE MOUSE THAT ROARED INTO ORBIT



Reactions in the communications world ranged from amusement to outrage in 1988 when the Kingdom of Tonga cleverly exploited a loophole in international law to lay claim to seven satellite slots that would enable the tiny South Pacific island state to provide phone and data service to the Pacific Rim. After all, tiny Tonga could hardly manage

carry off such an operation alone. On Nov. 17, Tonga unveiled its big brother. It announced that Rimsat Ltd., of Fort Wayne, Ind., would lease four of Tonga's slots for 10 years for an undisclosed sum. Rimsat, founded in April by James A. Simon, a wireless cable TV operator, has signed a deal for Russia to build and launch six satellites into the Tongan slots, with the first launch scheduled for next fall. In the meantime, Russia will move two of its leased satellites into Tonga's space so that limited phone service can begin as early as January.

VIRTUAL YUCKS OR COMPUTER JOCKS

Take this joke, please. At the Comdex computer show in Las Vegas, from Nov. 16 to 20, comedy software was competing for laughs with the lounge acts. There was Just Joking, a pendium of 2,800 cross-referenced jokes from Wordstar International Inc. of Novato, Calif. The company suggests using the \$49 program to liven up documents by injecting jokes from the likes of Steve Martin. If Martin's humor is too sophisticated, Comedy Software Ltd. of Los Angeles sells a program with 8,500 Milton Berle jokes. It plans Henny Youngman and Phyllis Diller versions, too. Funny sound-effects programs are also big, now that Windows 3.1 handles audio. Sound Explosion, \$49.95 from Programmer's Warehouse in Scottsdale, Ariz., lets you add more than 500 bangs, bells, animal sounds, cheers, and the like to your Windows commands. The sound of a toilet flushing, for instance, can be programmed for whenever you hit "delete." It's sure to get a chuckle in some circles.

TELECONFERENCE CALLS SOME CLOSER TO REALITY

Researchers at IBM say they've made a breakthrough in the transmission of moving pictures that should make it easier for personal computer users to hold face-to-face meetings without getting out of their seats. In a prototype using IBM PS/2 computers, the talking heads of office mates appear in windows on the screen at a TV-like speed of 30 frames per second. All participants have to be connected to the same local-area network. IBM has not said when it plans to sell such a system. It figures that, when it does, the price per desktop,

including software, microphones, and cameras, could be about that of today's more expensive add-in circuit boards for PCs.

The key to IBM's system is the way video images are handled after they've been compressed into a data stream to squeeze onto the network wiring. Other systems decompress the data stream, returning it to its massive original size before preparing it for display on a screen. That takes a lot of expensive computing horsepower. IBM researchers figured out a way to prepare the image for display while it's still tightly compressed—a much more manageable job.

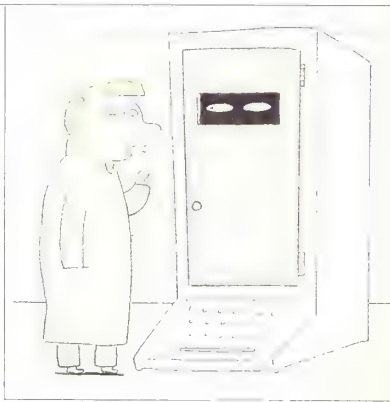
AT LAST, GUIDES THROUGH THE INTERNET SNARL

Imagine a giant encyclopedia whose entries aren't in alphabetical order. To look up zebras, you would need to track down somebody who knows what page they're on. That's about the situation with Internet, a loose global computer network made up of thousands of subnetworks run by universities and government agencies. People hooked to Internet can communicate with 5 million to 10 million fellow users on every continent and tap into data on space suits, literary criticism, or local weather forecasts. But because Internet has grown piecemeal, there's no central index listing how everything can be found.

Finally, though, some worthwhile guides to Internet are coming out. One, *There's Gold in Them Thar Networks*, is by Jerry Martin of Ohio State University's Academic Computing Services in Columbus, Ohio. The 40-page document is free and points readers to some of the most useful data sources. For a more thorough treatment, there's *The Whole Internet Catalog & User's Guide*, by University of Illinois computer expert Ed Krol. The 376-page book is \$24.95 from O'Reilly & Associates, a publisher in Sebastopol, Calif.

'C'MON, YOU CALL THAT A PASSWORD?'

For hackers bent on thrills or destruction, guessing a computer user's password is often a piece of cake because many users choose passwords that are all too guessable. Password Coach, a program from Baseline Software in Sausalito, Calif., can help select a password that's easy for you to remember but hard for a hacker to guess. Priced



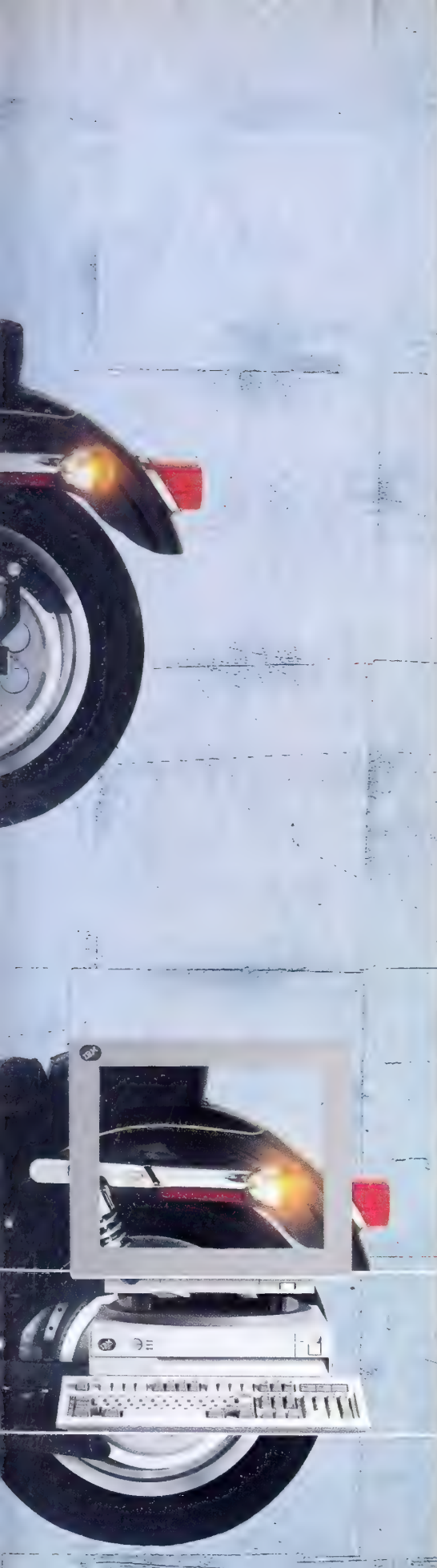
at \$395 for unlimited use on a network, the software subjects your password choice to 45 tests before approving it.

Password Coach will reject names of people and places, pop-culture words such as Batman, all variations of your user I. D., as well as sexual and curse words—all of which are very popular. Baseline President Charles Kresson Wood says that the strongest passwords often include numbers as well as letters, such as Lust4Life. Others include unlikely compounds such as Pinkleathersofa, or offbeat acronyms such as TOTRARTYTD, which stands for "too old to rock and roll, too young to die." But since these passwords have appeared here, you should probably avoid them, too.



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John Balch, Chairman, President & CEO,
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"There are about fifty-five million dogs and sixty-three million cats in the United States. As their owners will tell you, almost every one of them sheds.

When you make a hand-held vacuum that picks up pet hair—and just about everything else—that's reason to celebrate. It's also a great reason to advertise.

That's exactly what we decided to do at Royal Appliance Mfg. Co. Combining radio, television, print, and cooperative advertising, we hit the ground running, and we haven't let up since.

The results? Royal's sales have doubled every year for the last three years. Top-of-mind awareness of the Dirt Devil® brand name is up 300 percent for the same period. In fact, Dirt Devil is now the best-selling corded hand vac in the world.

Those figures demonstrate two things: the power of Dirt Devil—and the power of advertising.

I'm sure some companies think we overspend on our advertising budget. But what others see as an *advertising budget*, we see as an *investment plan*, as well as an extremely effective method of getting rid of all that unwanted hair."



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HAVE BUSINESS CARD, WILL MEDIATE

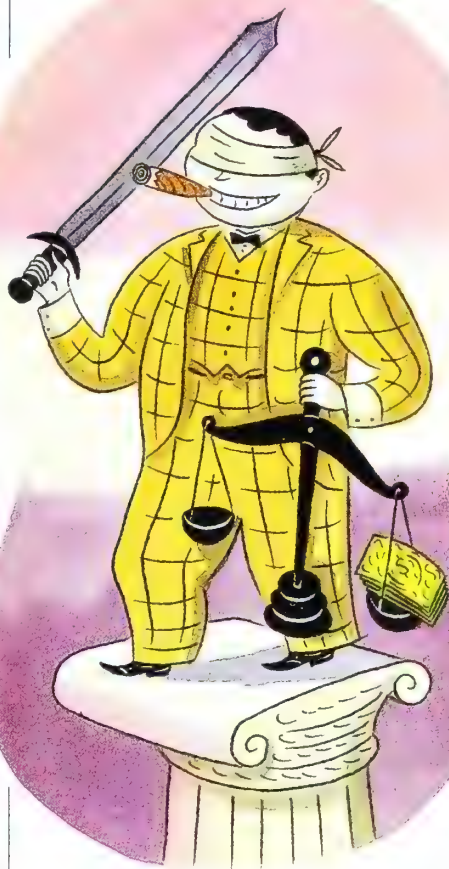
legally unregulated arbitrators and rent-a-judges spark a debate

Last December, Tenneco Inc. was about to settle a batch of shareholder suits when a Texas judge uncovered an undisclosed side deal between a plaintiff's lawyer and the mediator overseeing the negotiations. The mediator had agreed that the supposedly neutral mediator, a former state court judge, would share in the award. Tenneco agreed to settle for \$35 million. Based on that figure, the mediator would receive \$250,000 for just one day's work. But after the judge blasted the deal as unethical and refused to approve it, the parties slashed the settlement to \$30,000. Both the attorney and mediator deny that they had a prearranged pact.

The incident, while isolated and extreme, points up the risks of an increasingly popular phenomenon: Driven by rising legal bills and gridlocked courts, companies are turning to mediation and other out-of-court settlement techniques. Known as "alternative dispute resolution," such procedures are quicker and cheaper than litigation.

CONFLICTS OF INTEREST. Their growth and appeal is feeding a booming cottage industry of resolution companies and rent-a-judges. But there's a catch: Because the field is virtually unregulated, anyone with a business card can call himself or herself a mediator. And now, concerns over conflicts of interest and quality control are starting to spread. "There are very few standards," says Julie Menkel-Meadow, a law professor at the University of California in Los Angeles. "There have been abuses."

States and industry groups are aware of that, but they are clashing over how to proceed. And mediators aren't their only worry. For the past decade, courts have urged—or required—parties to use alternatives to litigation. Yet experts



note that parties may be naive about such procedures and have little say over who settles their cases.

In some states, the problems may start with the judges who farm out the cases. In Texas, a task force of the state Supreme Court has been probing appointments by judges, including mediators. It found practices that raise at least the appearance of impropriety. Among them: judges who refer a dispro-

portionate number of cases to the same mediators—who also happen to be campaign contributors—or who solicit mediators for contributions. In other instances, judges indiscriminately dumped piles of cases on mediators without even notifying the parties. The task force will soon release a report recommending ways to rectify such practices.

When parties find their own mediators, quality is rarely a problem. The market is bursting with lawyers, psychologists, and other professionals who will resolve conflicts for a fee. Still, impartiality is not guaranteed. One risk is favoritism by so-called neutrals toward lawyers or firms who have hired them before or who provide a key source of income. "When they get paid and if it's lucrative, they will want to be picked again," charges Detroit lawyer Sheldon L. Miller.

NO BRAIN DRAIN. Many people in the resolution business say they don't find a great deal to be concerned about. The nonprofit Institute for Social Analysis in Monterey, Calif., has just completed an 18-month study of private judging in three busy California courts. The study found no evidence that private judges were seeking repeat customers. Nor was there a dramatic difference between awards and the method by which cases were settled. And there was no brain drain of good judges from the bench. At the same time, the report concluded that private judging didn't lighten the courts' load.

Still, some providers are fretting that rivals "might do something to give the field a bad name," says lawyer Michael D. Young, who heads Endispute Inc.'s New York office. To help prevent that, the industry is trying to set standards. In fact, training and certification programs are a growing business in their own right. Pepperdine University, through its law school, has a certification program. Florida requires court-appointed mediators to have 40 hours of training and be certified by the state Supreme Court. And Colorado and Texas are regulating mediation. Still, until more states follow—or until the market weeds out incompetents and cheats—the best rule is: "Buyer beware."

By Michele Galen in New York, with Alice Z. Cuneo in San Francisco

HOW TO PICK A MEDIATOR

► Find mediators through well-established nonprofit groups or private companies that screen candidates and have ethics codes

► Research the mediator's background, training, and experience, especially in the area in dispute

► Probe parties who have used the mediator in similar cases for signs of favoritism. Also, question the mediator's ability to promote settlements

► Never agree to a settlement before consulting with an attorney, accountant, or other expert for advice

ASIA'S HIGH-TECH QUEST

CAN THE TIGERS COMPETE WORLDWIDE?

If you thought Japan's blue-chip companies and their billions had the global market for liquid-crystal displays all to themselves, think again. Sure, they supply LCDs for most personal computers. But look closely at the dashboard of a Mercedes-Benz 500, an automated parking meter in Germany, or the handheld terminal of a Norwegian lumberjack. Chances are, the tiny LCD was supplied by Varitronix Ltd., one of a new breed of Asian high-tech success stories.

Varitronix can't be found in a glistening Japanese industrial park. It's holed up on the fourth floor of Liven House, one of countless nondescript, grime-covered commercial

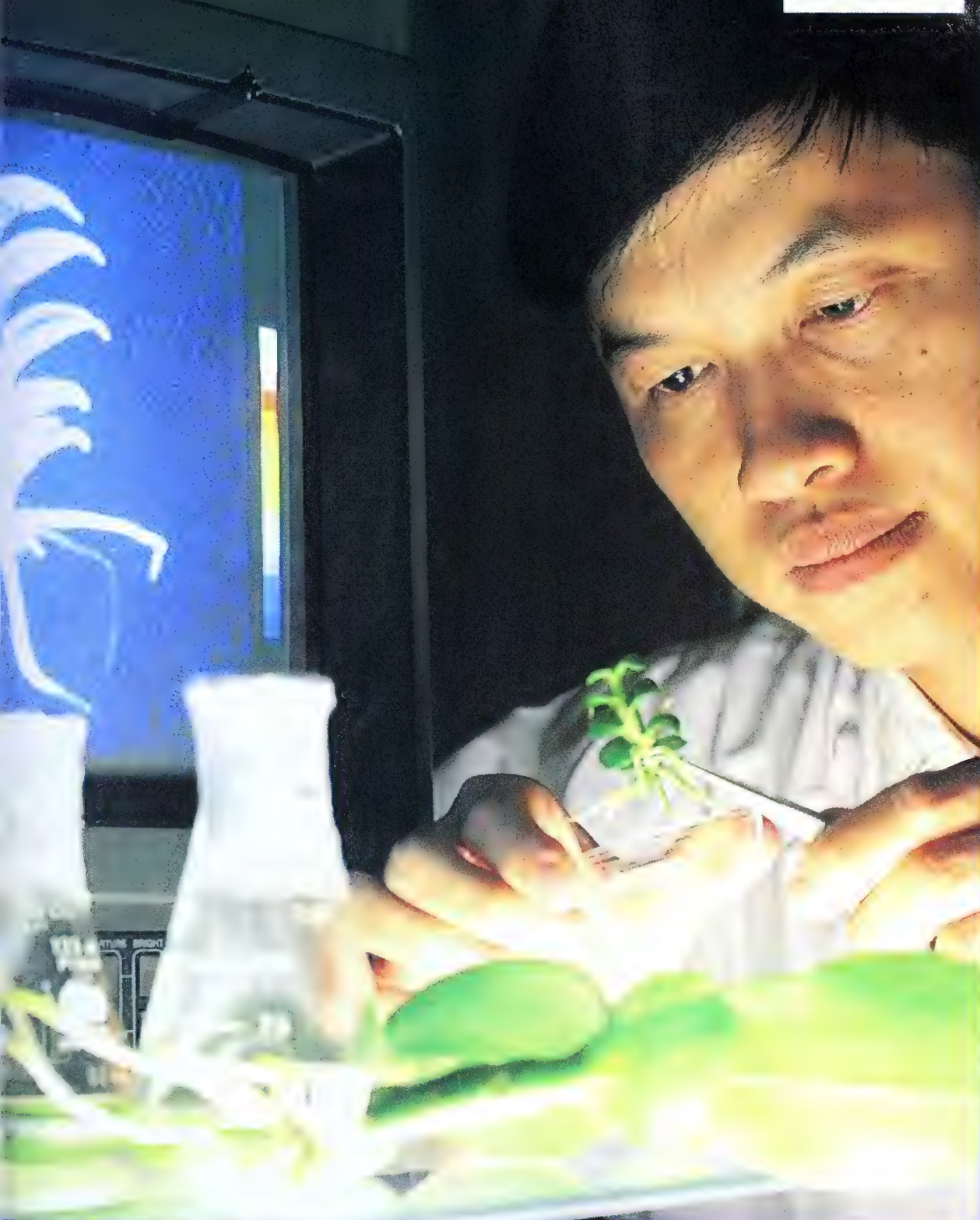
buildings packed into Hong Kong's busy Kwun Tong district. There, 30 engineers turn out custom-designed LCDs for thousands of overseas customers, sometimes in as little as two weeks and for an order as small as \$1,000. Sales have grown an average of 28% for the last five years and are expected to pass \$45 million in 1992.

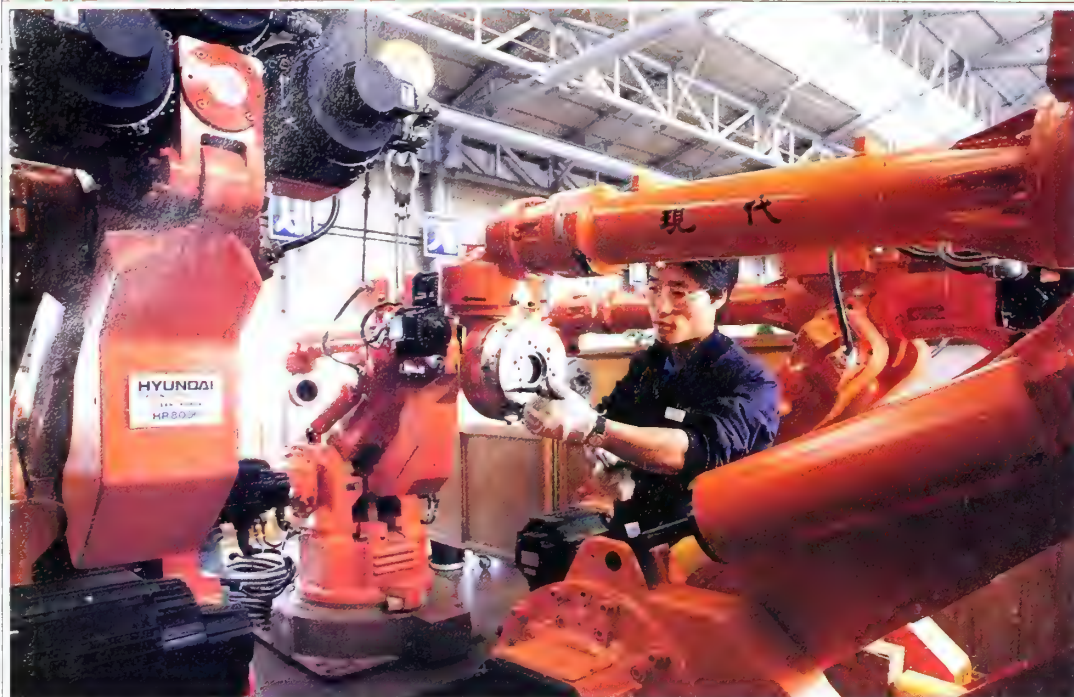
THEY'RE
ALREADY A
MAJOR
FORCE IN
HUNDREDS
OF NICHES

With little fanfare, Asia's quest for high technology is beginning to pay off. Hong Kong, Korea, Singapore, and Taiwan have long been known only for copycatting and low-cost assembly. But now, these Tigers of East Asia have quietly begun scoring successes in Western markets with innovative products in hundreds of niches. Al-



**A SINGAPORE LAB
INFUSED ORCHIDS
WITH FIREFLY
GENES, MAKING THE
FLOWERS GLOW**





ready, they have become a major force in everything from electronic toys and low-end audio appliances to high-performance PCs and memory chips. By the late 1990s, as the digital revolution hits mass consumer markets, the Tigers are certain to become premier manufacturing bases of digital high-definition television and multimedia. And in pockets of such advanced domains as biotechnology, digital communications, and automated chip design, Asians are actually starting to push the technological envelope.

NEW DEFINITIONS. Watch out, Japan Inc.? Not yet. Nobody believes the Tigers will leave the U.S. or Japan in their dust. They lack both the basic science and the capital needed to launch new product standards or to develop whole, emerging technologies. Even so, the hard-charging conglomerates of Korea and the fleet-footed entrepreneurial wizards of Hong Kong, Taiwan, and Singapore are already having a staggering impact on global high-tech market trends. Rather than competing head-on with the U.S. or Japan, most of them are targeting a surprising array of niches in such fields as aerospace, software, telecommunications, and robotics.

They may even be redefining just what high-tech prowess is all about. Today's Hong Kong, Taiwan, and Singapore, in particular, are switched-on, tuned-in, transnational, hypercompetitive breeding grounds that already have entered a borderless world of which American business school gurus only dream. Their fathers may have been rough-

**KOREA AIMS TO
BECOME A WORLD
SUPPLIER IN
ROBOTICS
AND AVIONICS**

hewn tycoons who built textile and plastics empires in sweatshops. But the new entrepreneurs are armed with years of experience in America's top companies and universities. They are as fluent in California marketing lingo as they are when haggling in Chinese dialects on the mainland.

They are becoming formidable competitors in part because of Asia's massive markets and staggering wealth, fueled by economic growth averaging 8% across the region, combined with a unique Chinese business model that differs as dramatically from Silicon Valley as it does from Japan Inc. Leaving the high-stakes game of technological one-upmanship to the U.S. and Japan, the Tiger techies dash after sudden openings, where money is to be made by innovating with existing knowhow.

The nimble Chinese entrepreneurs of Hong Kong and Taiwan, in particular, can switch product lines—say, from cal-

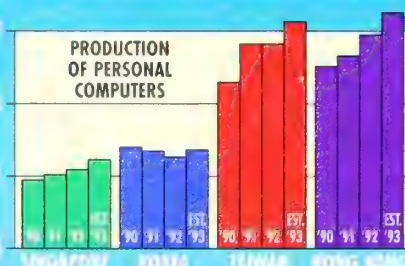
culators to notebooks to cellular phones—matter of months. By paring manufacturing costs, corporate overhead, and product development cycle the bone, they are really suited for the type of price-slashing warfare that is haunting the world's biggest electronics companies.

Doubters need look at the global computer industry. Companies such as Intel and Sun built the lightning-fast microprocessors that rocked the industry's foundation, bringing mighty IBM and DEC to their knees. It's the Taiwanese who make the low-priced circuit boards inside 65-

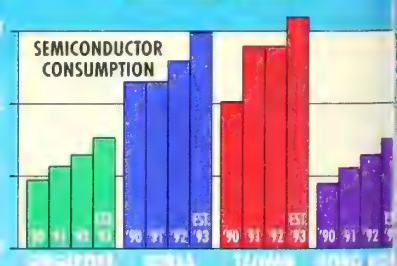
all PCs, setting the stage for the current PC price wars. And Korea's Samsung, not Hitachi or Toshiba, that is sewing up the market for dynamic random-access memory (DRAM) chips storing 4 million bits of data. All these achievements mean Asia is likely not only to hold on to domination of the low end, but also move up the technological ladder to higher-value products. It could usurp the next wave of multimedia devices, which the U.S. has been planning to conquer.

SCRAMBLERS. In the process, the Asians are turning on its head a fundamental assumption about industrial development: that national high-tech success requires massive outlays for research and development. Instead, the Tigers are covering that they are able to suck new technology from Western multinational corporations that are scrambling to take advantage of Asia's low-cost manufacturing, capital, wealth of talent, and expanding markets.

THE TIGERS ARE MAKING MORE HIGH-TECH GOODS...



...AND CONSUMING MORE, TOO



ding to their edge, the Tiger techies also spun out new models for technology management that emphasize a d and agility that even the Japanese, with their set-piece warfare of ive assembly lines, cannot match. Japanese spent gigantic sums automating production," says Varitronix Executive Director York Liao. "But in the meantime, they lost flexibility."

The reason for the Asian strategy is plain fact that Japanese or Western companies that took huge up-front risks didn't always make money. Given the staggering costs of R&D megalabs and factories of the future, even the cash-rich Taiwanese, with foreign reserves of \$100 billion, are concluding they shouldn't compete at that level. "Taiwan can't afford to squander resources on extravagant experimentation only to have it rejected in the marketplace," says Stan Chen, chairman of Acer, the island's biggest computer maker.

Despite massive efforts, neither Acer nor other Taiwanese have made a dent in the U.S. PC market under their own brands.

STRENGTH. In today's global technology marketplace, is it even necessary for small countries to bother with high-tech research? Some perhaps not. "Technology no longer is the bottleneck to development," says Joseph Tsai, managing director of Dataquest Inc.'s Hong Kong office. "In Asia, there is more technology than we can absorb today." With few exceptions, whatever how Asia lacks, it can now buy or obtain high-tech partnerships. The industry needs

is capital, distribution, and marketing," adds Lung. "These are Asia's competitive suits." Asia's own markets are key. The region plans to spend \$1 trillion on telecommunications and power-generation equipment alone over the next decade. That is making Asia one of the world's most important proving grounds for the latest in everything from communications networks to wireless communications. As telecom giants such as AT&T, Motorola, Ericsson, and Fujitsu move there, they create R&D labs and design centers staffed by local engineers. In turn, they are soaking up some of

the vast cash reserves, totaling \$167 billion among Taiwan, Singapore, South Korea, and Hong Kong.

Still, Asia's phenomenal strides will one day have to be backed up by real innovation. Cutting corners on research won't last forever as a strategy. "Why are America and Japan so strong in electronics?" asks Donald W. Brooks, president of Taiwan Semiconductor Manufacturing Co. "Because the guy who creates the system drives the business, all the way down to the components."

Can the Asians make the leap to the technology big leagues? "They have mastered the easy part, the basic manufacturing skills, but those are going to shift to Indonesia and India where labor is in even more plentiful supply," says

panel displays through protection, massive investment, and government-industry collaboration. The Tigers, in contrast, are embracing a new definition of catch-up. Rather than try to leapfrog the advanced economies, the secret is to absorb new technologies that can be quickly applied to niches in the marketplace. And rather than go head-to-head, the idea is to join forces as strategic partners. So while Asian policymakers support basic research in industries where they might have a chance, the emphasis will continue to be placed on applied research to fill selected market openings and on being valuable allies to multinational corporations.

More than the other Tigers, South Korea has closely imitated Japan and

achieved the greatest critical mass in electronics. But as that model's risks become clear, Seoul is turning toward the pragmatism of its Asian brethren. Until now, the Koreans have perhaps been best able to squeeze technology out of U.S. and European suppliers who win big-ticket defense and heavy-equipment orders. Through such deals as one with General Dynamics Corp. to co-produce F-16 fighters and thereby gain the knowhow, Korean companies aim to become global suppliers of avionics, engines, and robotics.

COSTS SOAR. But Korean officials want more. The goal: to become an "advanced nation" by early next century. To Korea's east is high-tech superpower Japan. Nearby China is coming on strong in numerous industries just as soaring labor costs eat

away at Korea's export base. So Korea is planning to invest nearly \$5 billion over 10 years to become leading-edge in 11 areas, including digital telecommunications, factory automation, pharmaceuticals, and even 256-megabit DRAM chips. The government also is expanding the Korea Advanced Institute of Science & Technology.

But to get more for their money, Korean companies are courting foreign corporations for new alliances. Americans are preferred, since they have been more generous in sharing proprietary knowhow in exchange for market access. But the Koreans have a lot to



Steven Schlossstein, a consultant based in Princeton, N.J., and the author of *Asia's New Little Dragons*. "Now begins the hard part."

In response to that challenge, policymakers across Asia are aiming to push their industries to the next level. Atop their list of priorities is boosting R&D spending, which ranges from 2% of gross national product in South Korea to a stingy 0.05% in Hong Kong.

But they are charting a starkly different course than Japan Inc., which spent the 1970s and 1980s seizing key industries such as automobiles, consumer electronics, semiconductors, and flat

prove. U.S. high-tech executives, suspicious of Korea's record of ripping off intellectual property and milking technology from partners only to compete with them overseas, are now wary of rushing into full-fledged alliances.

Singapore's experience couldn't be more different. No place in Asia is as unabashedly allied with foreign companies. The more than 1,000 multinationals on the island, pampered with tax breaks, government-sponsored staff training, and sometimes subsidies, account for 75% of industrial output and 95% of exports. And even though Singapore is spending lavishly on new R&D institutes, most of its efforts are geared to the needs of multinational corporations.

NEW TARGET. Singapore is also nurturing a handful of industries where it does have a shot at being leading-edge, including telecommunication services and software. Few places on earth are as wired up as Singapore, whose leaders believe world-class infrastructure is critical if the tiny republic of 2.3 million is to be a regional business hub. Already, most documents in Singapore's seaport, banks, schools, hospitals, and trading companies are processed electronically.

Biotechnology is another target, and early results indicate that Singapore has made Asia's first real stabs at original R&D. Since 1987, Singapore has spent \$50 million and lured 200 scientists from top institutes in the U.S., Canada, and Europe. The idea is to enter into R&D joint ventures with pharmaceutical companies and share proprietary rights for medicines that are developed. Among the breakthroughs: orchids infused with firefly genes that glow in the dark, proving that molecular transfer methods work, and rats implanted with human DNA, so that specific genes can be tested for links with diabetes.

Taiwan, too, is trying to target industries that play to its strengths, particularly electronics. Once frowned on as low-cost assemblers of calculators and watches, Taiwanese companies now crank out close to \$8 billion worth of electronics products annually. What's more, the government's efforts to establish a semiconductor industry are starting to pay off. Although the island still has to import 80% of the chips glued onto those boards, a handful of local firms have broken into the crowded global chip market.

Some, such as Mosel-Vitelco Inc., are installing production lines duplicating some of the most advanced processes found in Japan. A few are even tackling microprocessor design, cloning Intel

Corp.'s popular 486 chip. And because so many engineers have spent years in Silicon Valley, "they're very well positioned" in automated design of integrated circuits, says Jan Goodsell, president of the Japanese subsidiary of Cadence Design Systems Inc., the industry leader in this field. Using the same advanced software tools, Acer recently produced the first desktop PC that the user can upgrade simply by yanking out one microprocessor chip and plugging in a new, more powerful version.

Hong Kong contrasts with all the others in at least one respect: Government collaboration with industry is entirely new. The colony's Chinese entrepreneurs have always used a seat-of-the-pants style of management and practically no research and development. Now, in the waning years of British rule, Hong Kong officials are trying to get corpo-



**VARITRONIX'
TERMINAL LETS
HONG KONG
GAMBLERS BET
FROM AFAR**

rate executives to think longer-term. Hong Kong University of Science & Technology opened last year, and officials are investing \$57 million in an Industrial Technology Center.

Not that Hong Kong doesn't have some role models. LCD maker Varitronix, for example, is now moving into innovative end products. One is a handheld terminal with a touch screen that allows gambling-crazed Hong Kong horse-racing fans to place bets from home and trackside at the Royal Hong Kong Jockey Club, where the daily handle can pass \$100 million. Johnson Electric Holdings Ltd. is another niche player whose specialty is micromotors, which power everything from door locks to hair dryers. Customers include Chrysler, Black & Decker, Philips, and Singer. In 1990, the company won an exclusive contract to supply General Motors Corp.'s North American Division with windshield-washer pumps, a relationship that's expanding to other areas. With 1991 sales of \$167 million, Johnson is now the world's second-largest maker of micromotors,

behind only Japan's Mabuchi Motor. Like other scrappy Asian companies, Johnson's flexibility often gives it a huge edge over Japanese competitors. The company won a recent competition for a Big Three micromotor contract says Managing Director Patrick Wang because it was able to turn a concept into a working prototype in less than 10 months. Its Japanese rival, with a head start, hadn't even finished its design. "We run circles around them," Wang says. Now more and more U.S. manufacturers are farming out design work to companies such as Johnson. "The U.S. has fantastic product ideas, but they have trouble with the nitty-grit of getting them into production," he says. "Increasingly, they are entrusting front- and back-end design work to Hong Kong and China."

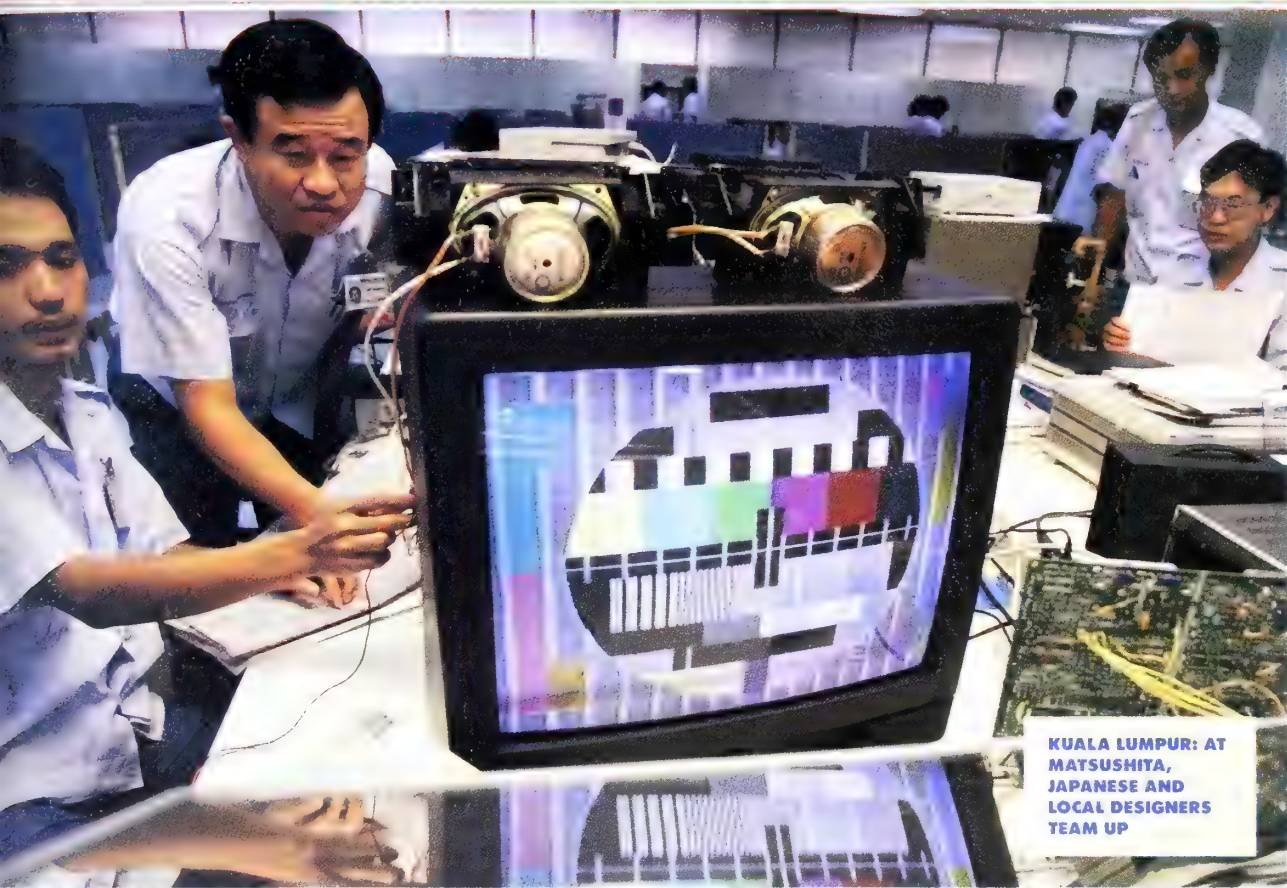
A huge new boost may lie just beyond the horizon if Hong Kong, Singapore, and Taiwan are able to tap the China connection. The mainland is stocked with world-class scientists, engineers, and biologists, but languishing in state-owned enterprises and research institutes on salaries of about \$300 a month. "They are lacking in knowledge of the market," says Allan Wong, president of Hong Kong's Vtech Group Cos. "But their potential is boundless."

STALKING. With so many factors ahead, it's easy to see why folks such as Chen Charng Ning, deputy president of Singapore's Nanyang Technological Institute, think the time is on East Asia's side. "It took Japan 50 years to get where they are," Chen says. In only a decade, the Tig-

ers have transformed themselves from technological societies into potent world-class competitors.

That means the Tigers are destined to reshape the global balance of technological power. By pursuing a different strategy than Japan, the Asians are demonstrating that it's no longer necessary to "catch up." Just as they did in the electronics industry, the Tigers are likely to move into fields such as fiber-based telecommunications, HDTV, and multimedia consumer products. That could benefit some heavyweight manufacturers in the U.S., Europe, and Japan that team up with Asian brainpower. But it will force others into the jungle of diminishing margins, where the Tigers rule. Even when they seem to be at a safe distance, the Tigers have a way of sneaking up quietly from behind.

*By Pete Engardio in Hong Kong
Neil Gross in Hsinchu*



KUALA LUMPUR: AT MATSUSHITA, JAPANESE AND LOCAL DESIGNERS TEAM UP

MULTINATIONALS HAVE TIGER BY THE TAIL

er technology team-ups are benefiting both—but for how long?

ank H.C. Lu recalls how he sweated over preparing a sales pitch to Taiwan's Institute for Information Industry. As director of business development at Hewlett-Packard in Taiwan, Lu wanted the institute to be a \$6 million software joint venture with Hewlett-Packard Co. But he was met with a barrage of questions from the institute's notoriously crusty president, General Kuo Yun. Yet just minutes into Lu's presentation, the general barked: "Stop, I'll do it."

Lu was born Open Systems Software Inc., which today is using sophisticated programming tools supplied by Hewlett-Packard to mass-produce software. General Kuo quickly saw the prospect of partnership as an easy way to get the new technology that will vastly increase Taiwan's ability to supply software to Chinese-speaking Asia. HP, meanwhile, has a new customer and

will share 40% of the venture's profits.

Whether he knew it or not, General Kuo was jumping aboard a bandwagon that's rumbling across Asia. With accelerating speed, Westerners and Japanese are "going local" with their high-tech businesses. Rather than merely setting up assembly plants, they are forging strategic alliances with Asian partners, working much more closely with local suppliers to improve their capabilities, and sharing more sophisticated work, including product design, directly with their local employees.

'WIDER AMBITIONS.' The result is a giant transfer of technology, with U.S. companies leading the charge. Asians are getting technology that would have taken billions of dollars and an entire generation to develop on their own. "We can work with partners to get access to all the technology," gloats Tsu-mu Lin, director of research and development at

Taiwan's First International Computer Inc. Through relationships with Intel, Texas Instruments, Microsoft, and Motorola, First International has become the world's largest producer of motherboards, the guts of personal computers.

Are foreign multinationals creating a Frankenstein that will rise up tomorrow and eat their lunch? Probably not. None is giving up its crown jewels. But there are risks for U.S. companies as they build up the technical skills of their Asian partners. Although the Japanese have a wider presence, they are more conservative about transferring technology and often insist on filling sensitive technical positions with Japanese.

In contrast, American companies have plugged Asian design and engineering facilities into their global strategies. For instance, Intel Corp. has Malaysian engineers designing state-of-the-art microcontrollers and chip packages in Penang. Such work makes Americans more competitive now but could eventually help turn the Asians into world-class players. "I know a lot of American companies that are reassessing the strengths of their Asian partners," says consultant Jordan D. Lewis, author of *Partnerships for Profit*. "They're much stronger than they were 10 years ago. They have wider ambitions."

Still, the big guys have little choice

but to play the game. With Asian factories supplying a growing share of end products for cars, TVs, and disk drives to the world, multinationals must supply their Asian allies with the advanced design tools, process technology, and quality-control knowhow needed for world-class products. At the same time, big chip-makers must expand their design capability in Asia to make sure their chips wind up in finished products—ranging from toys to computers—made by locals.

COMFORTABLE. These dynamics, plus shrinking product cycles, stiffer price competition, and soaring R&D costs, make partnerships and burden-sharing vital to survival. Team-ups with manufacturers in Taiwan and Hong Kong let U.S. companies such as Motorola Inc. move products from design to manufacture much more quickly. Cooperating on research

projects with Singapore's government institutes gives Europeans access to money and talent. By designing TVs in Malaysia for global markets, Japanese companies can free engineers back home for more sophisticated work. "To stay competitive, you have to keep transferring technology," says Dennis S. Tachiki, senior researcher at Sakura Institute of Research in Tokyo.

Although they are often less ambitious in scope, U.S. and European link-ups in Asia are more creative and less tense than those with Japanese partners. One successful alliance is Taiwan Semiconductor Mfg. Co., a five-year-old chipmaking venture owned jointly by Philips and the Taiwanese government. It has become a model for chip foundries in both Singapore and Korea. The partners have created the first purely contract-based semiconductor plant in the world, which makes chips to the specification of hundreds of small chip-design companies in America, Asia, and Europe. "U.S. companies feel comfortable with us because we don't compete with them,"

KEY HIGH-TECH VENTURES IN ASIA

Mainland

Land entry

Product/Technology

HONG KONG

GEC-MARCONI VARITRONIX LCDs

KOREA

HONDA DAEWOO MOTORS Automobiles
HITACHI GOLDSTAR Semiconductors

MALAYSIA

INTEL SUBSIDIARY Chip design
MATSUSHITA SUBSIDIARY TV design

SINGAPORE

GLAXO GOVERNMENT Brain drugs
APPLE GOVERNMENT Software

TAIWAN

PHILIPS GOVERNMENT Semiconductors
MOTOROLA CAL-COMP Pocket secretaries

DATA: BW

says TSMC President Donald W. Brooks.

Thanks to Taiwan's growing importance in the PC business and its low manufacturing costs, companies such as Intel, LSI Logic, and Philips have flocked to Taiwan for long-term relationships. Many more alliances are being forged. A significant one is Motorola's recent link-up with Cal-Comp Electronics Inc. to develop and manufacture so-called pocket secretaries—handheld computers no bigger than a calculator. Motorola thinks the more affordable design of its Hong

Kong-designed PocSec, to be unveiled in January, can beat the competition. Smitten with this success, Motorola says alliances with nimble Chinese entrepreneurs are

limited to pharmaceuticals. In an promising development, Apple Comp. Inc. recently opened the Apple ISS research Center in Singapore with the government-funded Institute of Systems Science as its partner. Over the next years, the center will spend \$10 million to develop voice- and handwriting-recognition software for computer and media products in Asian languages.

DESIGNER GLUT. At the other end of many Korean companies are reaping rewards from partnerships with Japanese and U.S. companies. Daewoo Heavy Industries Ltd. has parlayed technology transfer schemes to become a supplier of wing ribs for the Boeing 747-400 and wings for Lockheed's P3-C. In mid-

September, Honda Motor Co. and Daewoo Motor Co. agreed to collaborate on auto production in Korea.

Malaysia is just behind the Four Tigers in developing its technological strengths. One third is going for it is costs. The personnel director of one major U.S. company notes cheerily that he can hire three Malaysian engineers for the price of one American. That doesn't necessarily mean stinting on quality, though. TI, which

PENANG: INTEL HAS MALAYSIAN ENGINEERS DESIGNING NEW CHIP PACKAGES



s ago built a major plant for chip assembly and testing on the outskirts of Kuala Lumpur, now looks to that operation for leadership in those technologies. Three of the 2,800 employees are Malaysian. "TI design people come from Dallas for expertise," says Country Manager Jerry W. Lee. "We're a key player on a worldwide team."

The Japanese are also helping gear up Malaysia's human capital. At its sprawling three-year-old plant in the Shah Alam industrial estate on the western outskirts of Kuala Lumpur, Matsushita churns out 1 million TV sets a year for the world market. Already, teams of Japanese and Malaysian engineers at its design center are designing 90% of the TV chassis. Next year, it will rise to 95%. "Engineers are scarce in the U.S., Europe, and Japan" says Managing Director Hiroyuki Shirafuji.

ROBIN HOOD. Although relatively backward, China is managing to garner a share of technology alliances. Hewlett-Packard, in its first experiment with product design in the country, has dispatched a dozen local engineers to the U.S. for training. Soon, they'll be assigned the task of designing "integrations" that give printed readouts of lab data. HP is starting with this product because it is highly price-sensitive and requires a lot of engineering hours. HP initially couldn't afford to have it designed in the U.S.

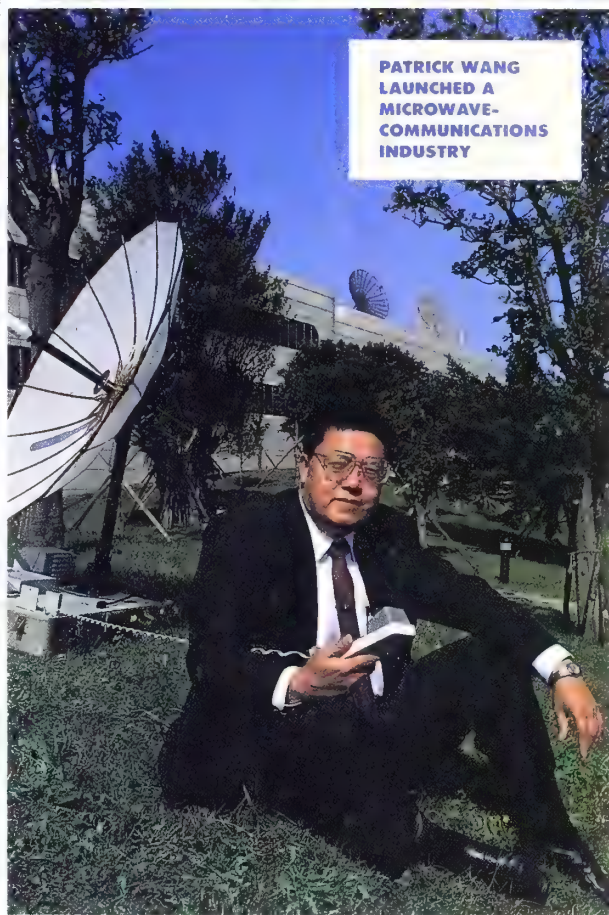
In the region, the payoff from all multinational activity has already become enormous. The Asians are gaining access to levels of software, design, and manufacturing technology that once was out of reach. And the upgrading of human capital could pay rewards for decades to come. On the Malaysian island of Penang, for example, 40 local multinational companies sponsor a training center that's teaching basic everything from drafting and basic electronics to computer-aided design and statistics. Says Center Executive Director S. Somchit: "What we're doing is Robin Hood—taking from the big and giving to the little guys."

But the toughest question remains: At what point do the little guys grow up? The answer is that, inevitably, Asian technological strength is going to matter. That will keep the pressure on U.S. partners to keep a step ahead. As long as American and other multinationals retain their advantage at the highest rungs of the technology ladder, they will be able to tap Asian partnerships with one day being swept away.

Robert Neff in Kuala Lumpur, with Peter Einhorn and Neil Gross in Taiwan, and Engardio in Singapore, and Laxmi Prasad in Seoul

BRINGING IT ALL BACK HOME

How U.S.-trained returnees are building Taiwan's high-tech future



for submicron chip production, \$120 million for biotechnology and pharmaceutical research, and \$120 million for high-definition TV. As U.S. blue chips cut back sharply on personnel and R&D, thousands of highly experienced Taiwanese employees are bolting for greener pastures back home (chart, page 134).

RELENTLESS. Taiwan is not alone. To varying degrees, all the affluent Asian tigers are drawing back talent trained in the West. For years, South Korea has been luring its U.S.-educated PhDs and experienced engineers home to run divisions at the powerful *chaebol*, or conglomerates. Singapore is throwing big research money at U.S.-educated recruits. And Hong Kong is a natural magnet. Most faculty members at its new technology university (page 135) are U.S.-trained Chinese.

These Asians who

Weichen Tien knows what he's after—and goes for it. As president of the Development Center for Biotechnology, he has been angling to lure Taiwan's best and brightest back from America. Strutting down the corridor at this burgeoning research and development institute, Tien has a lot to show for his efforts. The center's eight directors all came back from the U.S. over the past five years. "I got this guy from Kodak," says Tien, pointing to one executive suite. "This guy came from Monsanto, this one from Upjohn, and that one from Abbott."

As never before, U.S.-trained engineers and researchers are being lured back home to help direct Taiwan's climb up the technology ladder. With its coffers spilling over, Taiwan is pumping increasingly hefty R&D funds into critical technologies of the future: \$280 million

have been exposed to American entrepreneurial ways often achieve surprising success when they return to their more hierarchical societies. When Daewoo Chairman Kim Woo-choong wanted his *chaebol*'s small electronics company to move into new fields, for example, he tapped Park Sung-kyu, a University of Texas PhD who was working for oil-field service giant Schlumberger. Park eventually founded Daewoo Telecom Co., a \$350 million company that makes products from personal computers to optical fibers.

In Singapore, the new, government-backed Institute of Microelectronics is on a recruiting spree to build a staff of 125 within three years. Its head, Billy Y. S. Chen, is a mainland-born Taiwanese who worked at AT&T Bell Laboratories for 26 years. Research and development manager Victor K. L. Huang is



another Bell Labs veteran, who worked with Chen.

But among the Four Tigers, Taiwan is by far the most relentless in its recruiting drive. And it is going for talent with years of hands-on experience at major U.S. companies. There are so many former Bell Labs employees in Taiwan that 120 of them have formed the Bell System Alumni Assn. Many of them work at the Industrial Technology Research Institute (ITRI), Taiwan's premier research center.

SMALL SACRIFICES. To come back, they all make sacrifices. Would-be returnees have to persuade their spouses to forsake homes with two-car garages in suburban America for more cramped quarters in Taiwan. They also have to convince their kids, many born and reared in America, that crowded little Taiwan is really home. Some returnees even take pay cuts of up to 50%. But for many U.S.-trained engineers, it's a small price to pay for a chance at big challenges and, eventually, big bucks.

At face value, the departure of the Asians could be seen as a blow to U.S. industry. But in terms of the U.S. work force, their numbers are small. "For Bell Labs, it's nothing," says Lance Wu, deputy general director of ITRI's Computer & Communications Lab and a former researcher at Bell, which employs 17,000 engineers and scientists.

MIIN WU BROUGHT 40 ENGINEERS AND STARTED HIS OWN CHIP-DESIGN COMPANY

Taipei business executives argue that Taiwan's brain gain actually helps the U.S. because it creates opportunities for American companies.

After all, many of the returning Taiwanese are now U.S. citizens with distinguished careers and contacts spanning 20 years. Many have children studying and working in the U.S., and some even maintain homes on the West Coast. More important, when Taiwanese companies need a strategic partner, they almost always look to the U.S. first. "The returning professionals are big advocates of U.S. technology and values," says ITRI President Otto C. C. Lin. Such linkups "come naturally."

Those ties have come naturally for Patrick H. Wang. After graduating from Stanford University, Wang began a 17-year career at Hewlett-Packard Co. researching microwave technology. But in 1982, he and seven Taiwanese buddies, all microwave experts in the U.S., decided to launch a microwave industry in Taiwan. Quasi-government banks put up 40% of the venture capital and the partners kicked in the rest to start up Microelectronics Technology Inc. at Hsinchu Science-Based Industrial Park, 40 miles from Taipei.

The gamble paid off. The company now boasts 600 employees and \$81 million in sales. Its best-known product is INMAR-SAT, the portable satellite communications system

that was used by Cable News Network's Peter Arnett to transmit his reports of Baghdad during the Persian Gulf war. And in 1986, Wang went full circle: Hewlett-Packard took a 20% stake in the company. "This is an expansion of U.S. influence and competitiveness in part of the world," Wang says. He adds, "We know each other. It's easy to communicate. The mutual trust is there." Now, his company has U.S. subsidiaries in Maryland and California.

One major lure to returnees is money that the Taiwanese government is offering them to help develop new products. High-definition TV expert T. Y. Steve Chao, a University of Pennsylvania PhD, was a technical staff member for four years at the David Sarnoff Research Center in Princeton, N.J. Sarnoff, a subsidiary of California-based International, does research under contract for private and government clients. But Chao became dispirited because the leagues there were under heavy pressure to get funding—or quickly become history.

Now, as associate director of ITRI's HDTV program, he has \$120 million in government funds to put together the center's most complicated project ever: with five labs doing state-of-the-art research. The goal: to work with industry to turn up new products so Taiwan can get a piece of the action, once the U.S. sets its HDTV standards. "We have more reliable funding from our government," he says.

'TOPPED OUT.' Some returnees blame the move back more to Asia than technological knowhow. Working at major companies in the U.S., they have acquired skills as the ability to size up markets and motivate workers. T. Y. Wu, 48, for example, used to manage IBM's Los Angeles Very Large-Scale Integration Technology Laboratory, with 100 employees in California. But after 17 years at Blue and three at General Motors Corp. before that, Wu decided he had "topped out." In 1991, he became president of Taiwan's UMAX Data System Inc., known for its high-quality color scanners, with sales reaching \$40 million this year.

While these products aren't Wu's field of expertise, what he brought was managerial techniques of a global company to a country filled mostly with little ones. His ties to the U.S. remain strong: For software to enable a scanner to read English, Wu turned to CalComp, a small California company. "There's a small world between Taiwan and Silicon Valley," Wu says.

Some Taiwanese came back because they saw limited career prospects in the U.S. Miin Wu, 44, worked in Silicon Valley for 13 years. "No matter how haz-



ed, I always remained a technical contributor," he says. So he decided to go home and be the boss—but he couldn't come alone. To staff the chip-design shop he opened at Hsinchu in 1989, he brought with him 40 IC designers from Silicon Valley. His recruiting pitch: "We make a successful company so we can make money." He's doing that: Sales have increased from \$6 million in 1990 to \$80 million this year.

This flow of human capital from America's universities, research labs, and high-tech companies is creating a corps of talented, highly mobile technical managers in East Asia. They are destined to play a leading role in Asia's high-tech quest well into the next century. People like Lance Wu are also building a kind of technological bridge between the U.S. and Asia that could one day become as important as America's

strategic alliances with Japan. In his Hsinchu office, with a *Sports Illustrated* swimsuit calendar on one wall and a calendar of New York City landmarks on the other, Wu jokes that he doesn't quite fit in anywhere anymore. Where he clearly does belong, however, is at technology's cutting edge.

By Joyce Barnathan in Hsinchu and Bruce Einhorn in Taipei, with Laxmi Nakarmi in Seoul

IS 'THE MIT OF ASIA' GROWING IN HONG KONG?

in a place where dramatic views from executive suites are commonplace, Woo Chai-wei, president of Hong Kong's new University of Science & Technology, has an exceptional view. From atop the bluff where the school's spanking-new \$450 million complex stands, a wall of plate glass offers a sweeping panorama of Port Shelter Bay in the New Territories.

At Woo, who left the presidency of the University of California at San Francisco State University in 1988 to develop the "MIT of Asia," is fonder of the huge map on the back wall of his office. Pointing to the largely undeveloped Clear Water Bay Peninsula

at the edge of campus, he says: "Someday, this will be Hong Kong's Silicon Valley."

One of Asia's most ambitious efforts to leap into the future, Woo is out to create a first-rank science academy that will keep talented students at home. Already, the 55-year-old physicist has recruited an impressive array of talent, drawn by starting salaries of \$60,000 for a professor and the chance to start from scratch. Faculty members come from H. K. Lee, formerly head of the University of Southern California's biomedical engineering department, to Zheng Jiaqi, a physics researcher from the prestigious Chinese Academy of Sciences.

TECH WIZARDS. Perhaps more than any other project in Asia, the university—built with grants from the Hong Kong Jockey Club and the government—embodies Asia's hopes for high-tech recognition. Hong Kong's entrepreneurs have long been known for setting the shortest time horizons on the island, doing virtually no research.

But a new breed of global-thinking technologist is on the scene, fresh from long stints in America's best companies and universities. These young wizards, whether they make portable computers or cellular phones, appreciate the need for research and development. Increasingly, they are hooking up with multinationals such as Texas Instruments, Hewlett-Packard, and Motorola, which recently completed a \$400 million semiconductor complex dubbed Silicon Harbor. The result: Hong Kong is fusing Western technology with the Chinese genius for low-cost manufacturing and rapid adaptation.

Departments emerging in engineering, computer science, physics, and biology, there's little doubt that the school will be a redoubtable educational institution, so long as financial backing continues after China takes over Hong Kong in 1997. Right now, Woo isn't worried. With 2,200 students and funding for 5,000 more, in addition to 640 faculty members, "we have reached critical mass," he maintains.

INTEGRATION. Whether it will be recognized as a world-renowned research center depends on its ability to win industry support. It now has 180 contract grants ranging from \$6,000 to \$13 million. While small by Western standards, that's a start. Moreover, such multinationals as Motorola Inc. are actively negotiating additional contract grants, says Vice-Chancellor Thomas E. Stelson, who left Georgia Institute of Technology to manage research.

If other big companies sign up, the Tigers' integration into the global stream of leading-edge research and alliances will be complete. They would then be able to nurture Asian engineers and designers at home, while luring some of the world's best brains. And the fruit of their combined efforts could be spread to the small and medium-size companies that are the real workhorses in the Asian dynamo. It's an extraordinarily ambitious agenda, but in today's Asia, nothing looks impossible. Which is why, by decade's end, this Silicon Valley may be one of many all across the supercharged region.

By Dave Lindorff and Pete Engardio in Hong Kong



THE GOAL: CREATE A STATE-OF-THE-ART SCIENCE ACADEMY AND A CUTTING-EDGE R&D CENTER

Not only is this lifting Hong Kong beyond the era of sweatshops into the age of advanced electronics and telecommunications. It also may present a new paradigm for industrial competitiveness that could challenge the Japan Inc. model of nationalism, vertical integration, and massive outlay on factories of the future.

The new university aims to transform Hong Kong, as well as all of South China, by creating a firm foundation in basic science. With strong de-

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STRATEGIC TAXPAYING: BIG SHIFTS AT THE TOP

Compiling your holiday gift list may remind you that you need to take care of another, less popular yearend chore: taxes. Normally the next few weeks are your last chance to reduce your tax burden by shoveling as much income as possible into next year while roping as many deductions as you can into this one. But with a new Administration's tax changes on the horizon, you may want to do just the opposite.

President-elect Clinton has proposed raising the top marginal rate from 31% to 36% for single people who make at least \$150,000 and married couples who earn \$200,000 or more. He has also threatened to slap a 10% surtax on millionaires. To take advantage of 1992's lower rates, tax advisers are telling their clients to accelerate income into the current year and defer deductions into 1993. "All bets are off because we're looking at a new political environment," says Robert Garner, a tax partner at accountant Ernst & Young in Atlanta.

One way to accelerate income is to ask for any bonuses, consulting fees, or honoraria by yearend. You can also take the gain now on appreciated stock you've owned for less than a year, and if you still want to own the stock, you can use the proceeds to replace the shares. Executives with nonqualified

stock options may want to exercise them this year, says Garner, because they're subject to taxation when exercised. If you're self-employed, you can bill for compensation earlier, or ask clients to pay up by yearend. Meanwhile, retirees and workers older than 59½ may want to take a larger distribution from their individual retirement accounts (IRAs) this year.

At the same time, top-bracketers should be deferring deductions to help offset a bigger tax bite next year. For example, if you're about to buy a house, postpone the

closing until the new year, so you can deduct the points in 1993. Put off making charitable donations and pay real estate taxes after Jan. 1.

DEFERRED CHECKUPS. Postponing deductions on medical and miscellaneous expenses is particularly important if you are pumping up your income this year. Medical expenses must exceed 7.5% of your adjusted gross income, and miscellaneous expenses, such as tax advice and union dues, must total over 2% of your AGI to be deductible. Therefore, if your income is beefed up in 1992, it will be harder to reach those

limits this year and end next year. So, for instance, postpone discretionary medical expenses, such as eye surgery, checkups, and contact lenses.

Rick Taylor, a senior manager at KPMG Peat Marwick, has another idea about deductions. He thinks many are in danger of being scaled back or eliminated, so take advantage of them while you can. "Every year, they've been cutting back on them," he notes. For example, with political leaders talking about reducing the mortgage-interest deduction to raise a



revenues, he advises homeowners who would normally make their December mortgage payment on time to send their check in by Dec. 31 so they can deduct the interest in 1992.

If you're in the 15% or 28% bracket and expect to stay there next year, you should consider the usual accelerating of deductions and deferring of income. By delaying bonuses and other income to early January, more money goes into your 1992 income, but you don't get on it until a full year later. Another ploy is to stash income in financial vehicles where returns are payable in 1993.

SEASON. Remember, if your income is less than \$210,500 for singles and \$280,800 for married couples, deductions for income above that level are disallowed by 3%. That is, if you have \$300 in deductions for every \$10,000 your adjusted income exceeds the limit. Medical expenses, casualty and theft claims, and investment interest are excluded from this rule.

Also, tax-reducing strategies that may be entered next year are the gift-tax annual exclusion of \$10,000 a year and the unified estate-and-gift tax credit, which allows you to shelter \$600,000 of taxable income. Advisors are busy counseling clients on how to use it or lose it.

For annual gift-tax exclusions, you can give away up to \$10,000 in cash (\$20,000 for a married couple) per person tax-free. To be on the safe side, make sure the recipient has deposited the check before New Year so it will fall into 1992 and you won't accidentally use up your

There's a new trap in estimating taxes or having them withheld

1993 allotment. Taylor suggests making cash gifts by yearend, and doing it again as soon as possible in 1993, as it might not last the year.

Rumors of near-extinction also swirl around the unified estate-and-gift tax credit. It works this way: Normally, when you die and leave money to anyone other than your spouse, \$600,000 of your es-

ate is exempt from federal taxes. But you're also allowed to use up the exemption by giving away \$600,000 tax-free before you die. This year, Congress suggested slashing the amount to \$200,000—an effort that got nowhere but may be revived. Says Thomas Ross, tax partner in the personal financial-services group

at Coopers & Lybrand: "If you have \$600,000 today and don't give it away before yearend, Congress could reduce it to \$200,000, and you'd only be able to give that much." Of course, all this shuffling could lead you down the thorny path to the alternative minimum tax (AMT), warns Larry Elkin, senior financial-planning manager at Arthur Andersen. The AMT is a parallel tax designed to insure that people who make more than a certain level of income don't deduct their way out of paying a reasonable tax bill. Many regular deductions, such

as some unusual deductions that add up to be more than your income, you may trigger the AMT. But the only way to know if you fall under the AMT is to do the paperwork as if you were subject to both sets of taxes. Whichever comes out higher is what you're obligated to pay. To help avoid the AMT, Elkin suggests doing tax projections for two years at a time to insure that you're not creating a questionable scenario for the next year.

If you pay estimated taxes or have taxes withheld from your regular paycheck, there's a new booby trap to avoid. It

no longer suffices to fork over 100% of last year's payments to avoid penalties on underpaid tax bills this year. Now, you have to pay 90% of what this year's taxes will be if your income is more than \$75,000 and has increased by more than \$40,000 in the prior year, and if you filed or should have filed estimated taxes in one of the past three years.

If you haven't done so already, stash as much money as possible in your 401(k) plan or another retirement vehicle to reduce taxable income. Although you can contribute to any Keogh, IRA, or simplified employee pension plan until Apr. 15, you must open a Keogh no later than Dec. 31. And if you're planning to leave your job or retire this year, be sure to avoid what Elkin calls that "nasty little provision" that allows Uncle Sam to withhold 20% of your

401(k) lump-sum distribution if you take the money in cash. Instead, either keep the money parked where it is or have your employer immediately roll it over into another tax-deferred account. Otherwise, you'll be making an interest-free loan to the federal government until you get a refund. *Pam Black*

MAKING A TAX LIST AND CHECKING IT TWICE

IF YOU EXPECT TO BE IN THE TOP BRACKET NEXT YEAR, ACCELERATE INCOME AND DEFER DEDUCTIONS:

- ▶ Consider exercising nonqualified stock options, which are subject to regular income tax
- ▶ If you're self-employed, bill early and ask for early payment
- ▶ Take short-term profits in stocks by Dec. 31; sell stocks that give you a capital loss after the new year
- ▶ Close on a new home after New Year's so you can deduct the points on the loan in 1993

IF YOU'RE IN A LOWER BRACKET, DEFER INCOME AND MOVE UP DEDUCTIONS:

- ▶ Push bonuses into the new year
- ▶ Put money into certificates of deposit or EE savings bonds whose interest is not taxable until they mature
- ▶ Pay property taxes early so you can deduct them in 1992
- ▶ Pay fourth-quarter estimated taxes early

IF YOU WERE INTENDING TO MAKE A TAX-FREE CASH GIFT:

- ▶ Give \$10,000 (\$20,000 per couple) to each recipient now and then do it again early next year (in case Congress kills the exclusion)

IF YOU ARE SAVING FOR RETIREMENT:

- ▶ Divert as much of your salary as possible into your 401(k) plan to reduce your taxable income
- ▶ Set up a Keogh plan by Dec. 31 (if you're self-employed)
- ▶ If you plan to change jobs or retire, have your employer arrange a direct rollover of any lump-sum distribution into another tax-deferred account so the IRS doesn't withhold 20%

DATA BW

tate is exempt from federal taxes. But you're also allowed to use up the exemption by giving away \$600,000 tax-free before you die. This year, Congress suggested slashing the amount to \$200,000—an effort that got nowhere but may be revived. Says Thomas Ross, tax partner in the personal financial-services group

as state and local taxes and gifts of appreciated property, are disallowed under AMT, which is a flat 24%. Clinton has talked about raising this to 27%. But Elkin says that if the top marginal rate is also raised, not much will change.

"If you moved a lot of income into 1992," says Elkin, "and then in '93, you have

What's In

HOW TO BE A MAIL-ORDER COWBOY

Let's face it: Americans wannabe cowboys. Or at least they want to look like them. From the Marlboro Man to Ralph Lauren, Western wear never goes out of style. "It may be the only true American fashion," says Steven Weil, vice-president of Rockmount Ranch Wear, whose grandfather designed the snap-front Western shirt.

The easiest way to order up a cowboy wardrobe is through wish books—mail-order catalogs to you city slickers. But if you want to look like the real McCoy, keep a few things in mind.

First, the glitzy, rhinestone-studded, urban-cowboy look is out. Authentic is in. Farmers wear Lee jeans, civilians sport Levi's, and cowboys don Wranglers (Sheplers, \$30)—starched, ironed, and a cou-

WHERE TO OUTFIT YOURSELF

- ▶ **CHEYENNE OUTFITTERS**, Cheyenne, Wyo., 800 234-0432
- ▶ **DRYSDALES**, Tulsa, 800 444-6481
- ▶ **GENE AUTRY WESTERN HERITAGE MUSEUM STORE**, Los Angeles, 213 667-2000
- ▶ **MILLER STOCKMAN**, Denver, 800 688-9888
- ▶ **'MO' BETTA**, Apache, Okla., 405 588-9222
- ▶ **MUSEUM SELECTIONS/BUFFALO BILL HISTORICAL CENTER**, Cody, Wyo., 800 533-3838
- ▶ **OLD WEST OUTFITTERS**, Scottsdale, Ariz., 800 653-1880
- ▶ **SHEPLERS**, Wichita, 800 835-4004
- ▶ **SUNDANCE CATALOGUE**, Salt Lake City, 800 422-2770

DATA BW



ple of inches too long so the pant legs won't hike up over the boot tops in the saddle. Cowgirls wear Wranglers or Rocky Mountain Jeans (Miller Stockman, \$52). Also, avoid yellow, which has been bad luck ever since a rider in a yellow shirt was killed in a Cheyenne rodeo years ago.

CLASSY HEADGEAR. In the old days, a hat told all. Donning a dome crown with a wide brim

(Old West Outfitters, \$170) meant you were from Texas or the Southwest. Older ranchers still wear the "LBJ" Stetson (Cheyenne Outfitters, \$90). The classiest headgear today is a replica of Buffalo Bill Cody's beaver hat with ribbon-bound brim, custom-made (Museum Selections, \$650).

Everyday cowboys prefer low-heeled, round-toed "rop-

er" boots (Drysdales, \$100). Nobody said cowboys had to be boring, so heeled, pointy-toed boots are popular, too. Among the black, white, and brown designs favored by Redford (Sundance, \$18).

Southern cowboys wear plaid shirts (Miller Stockman, \$49); Northern cowboys like the bill because the extra material adds warmth and double washcloth (Old West Outfitters, \$50). The traditional snap-front starts at \$10 (Cheyenne Outfitters).

You can also buy a cowboy's derby (Old West Outfitters, \$265), a Gene Autry "Always Your Pal" T-shirt (Museum Store, \$17), or a kind of slicker worn in Crystal's *City Slickers* (Old West Outfitters, \$200). Cowboys wouldn't be dead in those duds, but ban ones might get a kick out of them. *Sandra Att*

For years, the vast majority of corporate employees making 401(k) pension plan choices opted for fixed-income funds made up of guaranteed investment contracts. Backed by bonds and a pledge that the contract would deliver a specific rate of return, GICs seemed a lot safer than putting your precious retirement nest egg into the stock market, with its wild swings. And if the bonds tanked, the insurance companies providing the GICs promised to make up the difference.

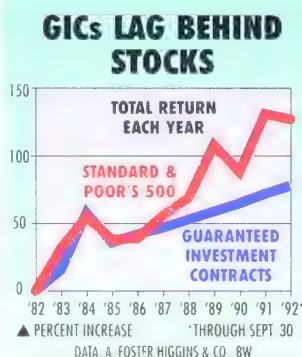
But GICs have fallen from favor in the wake of several major insurer collapses, which have rendered the contracts' promises worthless. Some corporate pension plans will do well to get back a fraction of their GIC principal. Also, employees are waking up to the fact that, over the long term, the stock mar-

RETHINKING GUARANTEED INVESTMENT CONTRACTS

ket gives a superior return. According to a study by the consulting firm A. Foster Higgins & Co., the GIC share of retirement plans dropped to 54% this year from 58% in 1991—and before too long

they could be eclipsed by stocks.

But for some, GICs remain a good idea. Many of the contracts are backed by bonds issued several years ago, when interest rates were higher. So returns (ranging from 6% to 9% yearly) outshine those of bank certificates of deposit, now about 3%. The trick is to make sure that your company's 401(k) plan uses GICs issued only by top-rated insurers and that the risk is spread among GICs from several providers. A rating of A or above from A.M. Best Co. and S&P indicates that the insurer is financially sound.



Smart Money

Who should go for GICs? Certainly, people nearing retirement, who need a principal. Then there are those who may have to draw their savings—and need GICs' assurance that the principal is safe. Should medical bills loom, you can withdraw the money, though there's a 10% penalty. And for the next year or so, as the older GICs deliver returns, anyone can profit by keeping a portion of the money in GICs.

If you work for a company that is downsizing, GICs may make a decent cushion during possible unemployment. Says Judith Mark, a vice-president at GIC provider John Hancock Mutual Life Insurance Co.: "Anytime in the computer or auto industries should be in a GIC. Despite the GIC's problems, guaranteed is still a comforting word." *Larry D*

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Outsourcing your global communications network takes time. And teamwork. All the more reason to begin right away. Because the sooner we become your partner, the sooner your network burden will become a business asset.

For more information on Syncordia, in the U.S. or Canada, call 1-800-477-5355.

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Electronics

TINY TOYS FOR BIG KIDS

Once you're past childhood Christmases, it's no surprise to find that big things can come in small packages. But this holiday, even the most sophisticated eyes may widen to see how tiny a big gift can be. Combining miniature electronics and ingenious design, some minute electronics items can make a sizable impression.



MINOX' EIGHT-POWER POCKET TELESCOPE GOES FOR \$350

Think small, and you think Minox. Its cameras, such as the 6-ounce full-frame 35mm ML model and the 2-ounce cigarette-length 11mm spy snapper familiar from James Bond films may seem almost toylike in your hand. But the quality of their lenses, automatic exposure systems, high-speed shutters, and workmanship warrants prices of \$400 to \$650—or, for real Santas, \$4,500 to \$8,000 for limited edition models in sterling silver or platinum.

And now, the German company has something other than cameras to wow you. It packed a crystal-clear eight-power telescope into a lightweight (2 ounces) rectangular case that's barely a half-inch thick with a sur-

face smaller than a playing card. You hold the T8 parallel to your face and peer through a tiny window in one corner. Adjust a focusing wheel, and an internal system of mirrors and lenses makes distant scenes jump eight times closer. At camera dealers, it's under \$350.

If you regularly lug a laptop computer, cellular phone, and a Sharp Wizard or similar electronic organizer, adding one item more can be the straw that breaks the strap of your carry-on bag. But these days a recorder is practically a necessity, so the smaller the better. At barely 3½ ounces, Sony's \$320 Pressman model is hard to beat in the mini category. It's about 2½ inches square. With its auto-reverse feature, you can record a two-hour meeting on a standard micro-cassette. Just introduced,

Sony's NT-1 recorder is a fraction larger in size, but considerably heavier in price—near \$1,000. That's justified by state-of-the-art digital recording. On a two-hour cassette that could fit on a postage stamp, you can play back a heated boardroom discus-



SONY'S 5.2-OUNCE MINIRECORDER CAN TAPE UP TO TWO HOURS



MINI MINOXES: A SIX-OUNCE, 35MM MODEL AND A TWO-OUNCE, 11MM SPY SNAPPER



CANON SAYS IT HAS "THE WORLD'S SMALLEST AND LIGHTEST CAMCORDER"—AT \$1,799

sion and distinguish each voice and angry word.

SHAVE, TAPE, LISTEN. Sanyo's bid to fill that last sliver of empty space in briefcase or pocket is the SV-P700 electric shaver. It's great for any man who has ever tried to freshen up in an airliner's restroom with a throwaway razor and watery liquid soap. Virtually weightless and under \$70, the shaver is about the size of a stack of credit cards and runs 40 minutes on a single AA battery.

For the moment, Canon lays claim to the "world's smallest and lightest" camcorder, the \$1,799 8mm UC1, with a color viewfinder. The camcorder weighs just 1.15 pounds and comes with a wireless remote control for playback functions. About 4 ounces heavier, Sony's \$1,600 monochrome-view-

finder CCD-TM model comes in close second.

Miniaturization engineers have surprises, too, for audiophiles who think stereo means a four-foot stack of components with loudspeakers as big as boxcars. Entire systems fit in two or three feet of bookshelf space.

Atop a turntable, Aiwa's MiniMax N-350 boasts a square CD player. The unit, said to be the industry's smallest, has a three-channel changer that can be programmed to play tracks on any CD in any order. There's a dual cassette deck plus an equalizer, a 30-watts-per-channel amp that feeds two magnetically shielded speakers on either side. And, for signal long adherents, a "mute" button silences vocals on CDs and cassettes. That's if you sing, karaoke style, to the orchestration. Listed

at \$550, it costs \$100 or so at discounters. The system is undersize, but it doesn't qualify as a stocking stuffer—less Bigfoot is on your Christmas list.

Don D.

Worth Noting

■ **MAKING TRACKS.** The 17th edition Eurailpass system made its popular Youthpass more flexible and less costly. Besides the standard 4-month ticket for \$508, as of Jan. 1 the under-26 set can buy one that allows five days of rail travel over two months for \$220, 10 days for \$348, or 15 days for \$474.

■ **BICOASTAL BUYS.** Expedia Hotel Reservations (800-441-1123) will book deluxe hotel rooms in Los Angeles, Manhattan at 10% to 20% rack rates. The free service also guarantees the lowest airfares between the cities.

The values we're teaching kids are years behind the times.

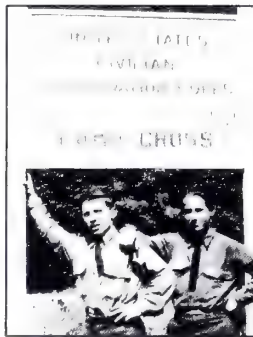
It's 7:30 a.m. And not one minute later.

A small army of young people, known as the San Francisco Conservation Corps, meets outside its headquarters at Fort Mason for morning exercise.

There are 130 of them. Of all ethnic backgrounds. From all over San Francisco.

Quickly, they divide into work crews and head out for every corner of The City. To plant trees. To clear weeds. To build playgrounds. To renovate community centers.

But along with making vitally needed civic improvements, these kids learn valuable lessons. About taking responsibility. Giving and receiving



respect. The diligence needed to get a job done right. And the feeling of dignity that results. Lessons they might not have learned otherwise.

It's all in a day's work. The Civilian Conservation Corps proved it

50 years ago, helping young people to help themselves and their communities beat the Depression.

Today, the SFCC addresses similar problems that weigh heavily on the minds of San Francisco businesspeople. Unemployment. Declining city infrastructure. And, developing a strong work ethic among young people.

So far, the SFCC has realistically tackled these problems with demonstrated success. But the future depends on additional funding from the San Francisco business community.

Of equal importance, SFCC "graduates" need real job opportunities. And frankly, to find employees with such solid work ethics you'd have to be up pretty early in the morning. 7:30 a.m. to be exact.

To find out more about the SFCC, write to Executive Director, SFCC, Building 111, Fort Mason, San Francisco, CA 94123 or call 415/928-7322

San Francisco Conservation Corps





Never give an addict a second chance.

It's not a question of if you should give an addict a second chance. The solution is to make sure they never use drugs again.

But how?

The answer isn't in the drug.

It's in the person who uses it. That's the real addiction.

The only person who can change that is the person.

And here's why: That's why it's so hard to give an addict a second chance. The only way to make sure they never use drugs again is to make sure they never use drugs again.

So, if you're a manager or CEO, please call 1-800-443-4971. That's the National Institute on Drug Abuse hot line for managers and CEOs. It's manned by

Program Planners and

through Friday, 9:00 a.m. to 5:00 p.m. Eastern Time.

They won't tell you what to do. They'll give you the options. Call now; please don't pass up this chance.

Partnership for a Drug-Free America

Index to Companies

gives the starting page for a story or feature. Most are indexed under their own names. Companies listed only in tables are not included.

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BW214	BusinessWeek logo	Burgundy						
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BW204		Black						
BW218	Pocket Planner	Burgundy	14.50	11.45	10.45	9.35		

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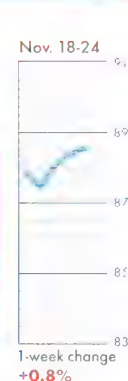
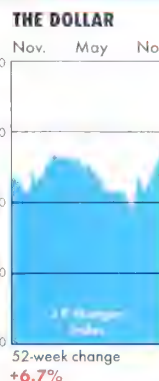
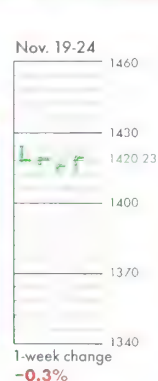
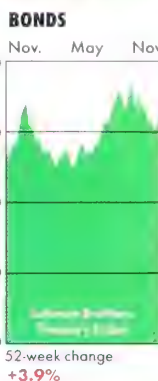
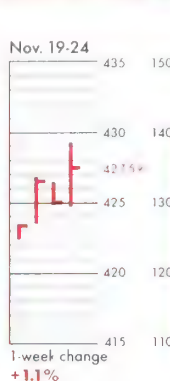
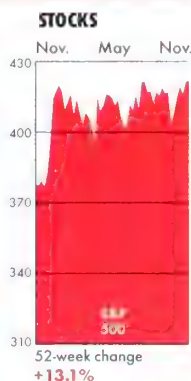
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Investment Figures of the Week

STOCKS

er away you go from the es industrials, the better market looks. The broad-ard & Poor's 500-stock ind-ed to an all-time high on The Dow, while making a % gain for the week, is still % below its high. Tar-ue chips such as General BM, and Westinghouse him it down. Small stocks to make good gains. The 000 index rose 1.4%. The rket was less robust, as ates rose slightly.



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
ES INDUSTRIALS	3248.7	1.3	11.4
ANIES (Russell 1000)	228.4	1.2	14.5
OMPANIES (Russell 2000)	210.8	1.4	20.1
ANIES (Russell 3000)	243.8	1.2	14.9

IN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	2727.1	0.9	10.3
NIKKEI INDEX)	17,096.1	1.9	-26.0
(TSE COMPOSITE)	3259.3	0.9	-5.5

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.29%	3.21%	4.51%
30-YEAR TREASURY BOND YIELD	7.54%	7.51%	7.95%
S&P 500 DIVIDEND YIELD	2.91%	2.96%	3.27%
S&P 500 PRICE/EARNINGS RATIO	22.8	22.8	21.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	415.3	414.9	Positive
Stocks above 26-week moving average	52.8%	49.6%	Negative
Speculative sentiment: Put/call ratio	0.37	0.39	Neutral
Insider sentiment: Vickers sell/buy ratio	1.96	1.77	Positive

INDUSTRY GROUPS

WEEK LEADERS

	% change 4-week	% change 52-week
UNICATIONS EQUIPMENT	21.2	5.9
	14.5	28.0
INE TOOLS	13.4	95.6
RE TIME	13.4	19.3
URANTS	11.8	40.9

WEEK LAGGARDS

	% change 4-week	% change 52-week
MINING	-14.7	-20.5
PLORATION AND PRODUCTION	-10.7	-19.3
ND GAS DRILLING	-9.6	21.0
ELL EQUIPMENT AND SERVICES	-7.7	-0.3
S	-6.3	-6.6

Strongest stock in group

	% change 4-week	% change 52-week	Price
DSC COMMUNICATIONS	30.2	297.4	18 7/8
GENESCO	20.3	69.0	8 7/8
GIDDINGS & LEWIS	14.6	83.4	23 1/2
BALLY MANUFACTURING	28.9	44.1	6 1/8
SHONEY'S	21.6	14.1	23 1/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
HOMESTAKE MINING	-19.6	-38.3	10 1/4
MAXUS ENERGY	-13.3	-18.8	6 1/2
ROWAN	-12.3	33.3	8
BAKER HUGHES	-12.0	0.6	20 1/4
CYPRUS MINERALS	-10.1	26.0	26 5/8

BRIDGE INFORMATION SYSTEMS INC

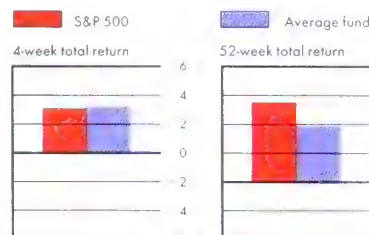
MUTUAL FUNDS

S

	%
total return	%
HANCOCK SPECIAL EQUITIES	15.6
ENT SPECULATOR LEVERAGED	13.5
AM NEW OPPORTUNITIES	13.1
total return	%
TY SELECT SAVINGS & LOAN	65.4
TY SELECT REGIONAL BANKS	50.1
ARK	49.7

LAGGARDS

	%
Four-week total return	%
UNITED SERVICES GOLD SHARES	-17.9
LEXINGTON STRATEGIC INVESTMENTS	-17.6
VAN ECK INTERNATIONAL INVESTORS	-13.1
52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-67.1
UNITED SERVICES GOLD SHARES	-60.5
VAN ECK INTERNATIONAL INVESTORS	-38.1



MORNINGSTAR INC

RELATIVE PORTFOLIOS

mounts
nt the present
\$10,000
one year ago
portfolio

ges indicate
total returns



DATA RESOURCES INC

this page are as of market close Tuesday, Nov. 24, 1992, unless otherwise indicated. Industry
ude S&P 500 companies only; performance and share prices are as of market close Nov. 23.

Mutual fund returns are as of Nov. 20. Relative portfolios are valued as of Nov. 23. A more detailed
explanation of this page is available on request

TIGERS, TIGERS, BURNING BRIGHT

With stunning speed, Hong Kong, Taiwan, Korea, and Singapore are bounding over technological hurdles and entering the high-tech sweepstakes, long the preserve of the U.S., Japan, and Europe (page 126). Korea already is a major challenger in memory chips, and Taiwan has driven the profitability out of personal computers by turning them into low-margin commodity items.

Although this creates obvious challenges, it is also a source of major opportunities for Western technology companies. U.S. corporations, such as Hewlett-Packard, Intel, and Motorola, are finding that strategic alliances and investments in Hong Kong, Taiwan, and especially Singapore can give them a competitive boost. Although the Americans possess cutting-edge technologies in their labs, they have been slow in getting them to market. That's precisely where the Four Tigers, with strong human capital and quick turnaround times, are at their strongest. The blossoming of U.S.-trained brainpower in Asia is, therefore, an asset.

The U.S. players at risk are the ones that transfer too many of their most advanced technologies. Throughout the postwar era, Western companies have come to rue the day that they licensed technology to then-obscure Japanese upstarts. Are they repeating the mistake, only on a grander scale?

We doubt it. These Asian economies are far more open than Japan's, and their technology strategies are not winner-take-all. Obviously, U.S. companies must maintain their overwhelming edge in basic technology and not allow themselves to be hollowed out. U.S. companies that underestimate the skill and energy of their Asian partners could be in for a rude shock, but an even harsher fate awaits those who ignore Asia's emerging strengths.

The Tigers' pattern of creating reciprocal alliances with Western companies, of attracting world-class talent from such sources as AT&T Bell Laboratories, and of turning themselves into savvy, plugged-in entrepreneurs is clearly working. The vertically integrated Japanese giants have isolated themselves from some key high-tech trends, such as the explosion of IBM-compatible components. The Tigers are a long way from dethroning Japan. But their winning ways may one day force even the Japanese to respond.

WESTINGHOUSE'S DO-LITTLE BOARD

Westinghouse Electric Corp.'s board of directors provides yet another example of failed corporate governance. Even though the company was teetering on the brink of financial disaster, it was investor pressure—not the board—that moved CEO Paul E. Lego to act (page 32). The activist institutional investors that began agitating this summer can take heart that Lego finally moved.

Getting action at other recent activist targets, such as GM and Sears Roebuck, took years.

Interestingly, Westinghouse's diversified nature made it more vulnerable to activist shareholders because its disparate businesses lend themselves to a fire sale. The activists demanded an easy remedy, and the market applauded, pushing up the company's stock by 24% on the day of the restructuring announcement—despite a dividend cut.

But a more important point is involved. Westinghouse shows just how dysfunctional corporate boards can be—particularly at diversified companies. No one believes, anymore, that a professional manager can manage any kind of business. If making a conglomerate work takes exceptional management, it takes exceptional directors, too. Yet despite the need for greater vigilance caused by problems in many of Westinghouse's diverse businesses, the company's board did little. The company's finances deteriorated, its market performance declined, and its investors grew angry, but its directors didn't rise to the challenge. What made Westinghouse directors think they could be effective monitors of management at a troubled, diversified company without an extra effort? Notes Stanford law professor Joseph A. Grundfest: "Where you find conglomerates, you often find a dysfunctional governance process."

If the board wants to burnish its tarnished reputation, it should enact many of the reforms activists seek, notably creation of a nominating panel to replace departed directors.

GATT: WHO SAYS BUSH IS A LAME DUCK?

The transition from George Bush to Bill Clinton has temporarily given the U.S. powerful leverage to move the long-stalled Uruguay Round of trade talks ahead. Now relatively free from domestic lobbying pressures, President Bush has turned his lame-duck status to advantage by breaking the deadlock with the European Community over farm subsidies. That clears the way to resume serious bargaining at Geneva under the 108-nation General Agreement on Tariffs & Trade on the full range of global trade issues, from textile quotas to protecting patents.

Until Jan. 20, President Bush has more political leeway to make tough trade-offs among the demands of competing U.S. economic sectors than incoming President Clinton is likely to have. But Bush certainly will insist that key trading partners dismantle long-standing trade barriers. Tokyo, for one, can't be allowed to block rice imports while it benefits from open global markets for its huge exports of cars and electronic goods. And India and Brazil can't rip off U.S. pharmaceutical patents on the pretense that economic underdevelopment gives them the right to do so.

The GATT negotiations can lift the global economy out of the doldrums by unleashing a vast surge of new trade. More than that, the bargaining is a chance for each country to unshackle its productive powers by getting rid of protections and subsidies that hobble domestic producers. President Bush, in what could be one of his greatest achievements, has led the way.

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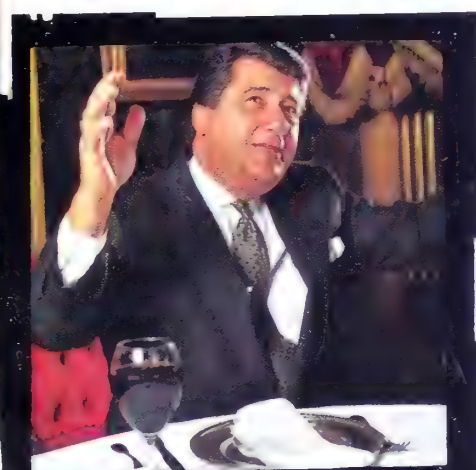
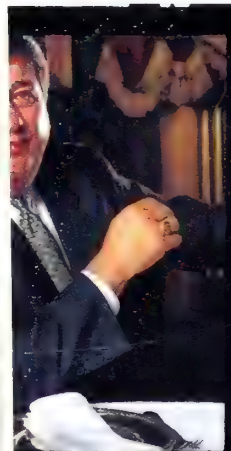
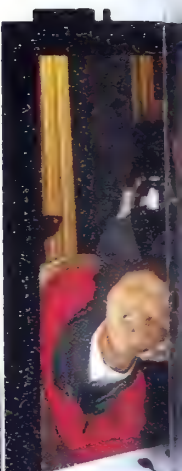
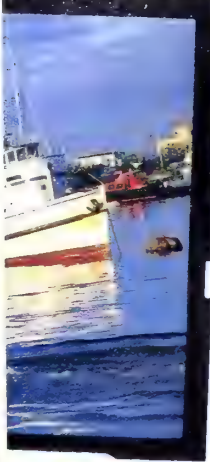
The microLaser PS17 has earned the 1990 PC World Best Buy award; microLaser PS35 has earned the 1990 InfoWorld Excellent Value award and 4½ mice from MacUser, October 1990.

Features	microLaser Plus Basic	microLaser Plus PS17/PS35	microLaser Turbo	microLaser XL Turbo
PPM	9 ppm	9 ppm	9 ppm	16 ppm
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Processor	68000	68000	RISC/8220	RISC/8220
Fonts	14 HP Fonts	17 or 35 Scalable	35 Scalable	35 Scalable
List Price	\$999	\$1,399/\$1,499	\$1,749	\$3,649

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INSTRUMENTS**

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DO YOU KNOW ME?



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My father had a saying, "Anyone who says they never had a chance never took a chance." With that in mind, my partner and I started The Sardine Factory with \$960 and a cheap space up a staircase on the wrong side of the tracks. All the right ingredients for a smashing success.

yesterday are the mediocre restaurants of today, and they'll be out of business tomorrow unless they keep changing and keep evolving with their customers.

I think American Express has the same kind of philosophy—they're going to do what it takes to keep the seats filled here.

I'VE ALWAYS BEEN PREPARED TO EAT MY LOSSES.
(OF COURSE A NICE SAUCE ALWAYS HELPS.)

We were young, we worked hard, and some nights we even slept there.

The way I see it, we haven't got a choice but to gamble on something new and exciting. If you're in the restaurant business, you've got to keep changing with the times. The great restaurants of

And I think that overall, American Express customers are by far the higher profile customers for fine dining. They're sending me people who appreciate that I go out on a limb. After all, that's where the fruit is.

Ted Balestreri
Co-Founder, The Sardine Factory
Monterey, California



Don't Leave Home Without It.



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RAVE ON: BUSTERS TAKE FIVE AT WILD DANCE MARATHONS BY BELLING UP TO 'SMART BARS' FOR PROTEIN- AND CAFFEINE-LACED DRINKS

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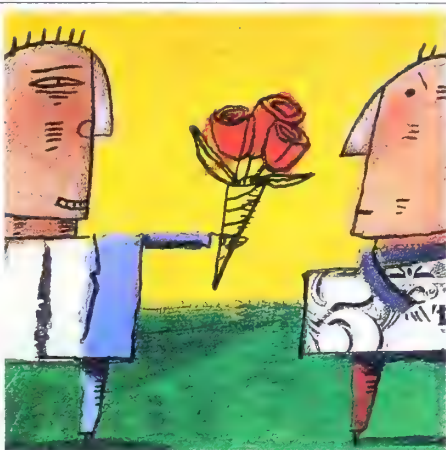
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'REINVENTING AMERICA': THE FLOOR IS OPEN

From the opening "It can be done" to the succinct summary, you have the blueprint to again make us the world leader ("Reinventing America," 1992 Bonus Issue). It would have been nice to have Ross Perot to direct the traffic.

Keep hammering at the U. S. world of business, politics, academia, and more important, each of us. It must be done!

Robert W. Nikander
 President
 C. A. Briggs Co.
 Willow Grove, Pa.

Turning each page was like opening a precious gift.

Evanne Geltzeiler
 Mountainside, N. J.

You have reinvented America as *dèjà vu* all over again.

Urban A. Thobe
 Barrington, Ill.

What a wonderful [introductory] essay! What inspiring ideas!

This writing should be required reading for every high school and college student. Ditto for every CEO, manager, and worker in America! For my part, I'm going to make it part of the syllabus for my training seminars for business executives.

Claude Farley
 Bothell, Wash.

I loved the issue. I would add three recommendations:

- Reduce the five military services to just one.
- Eliminate paper money (retaining coins). All purchases of goods and services would be by credit card, personal check, or bank debit card. This would: virtually eliminate drug dealing and use; reduce other economic crimes, such as auto theft and bank robbery; and vastly improve tax collection as the "underground economy" is destroyed.
- Litigation reform. Mandate "no fault"

laws for auto insurance, medical malpractice, and product liability. To stop frivolous lawsuits, require the loser to pay winner's legal costs.

John W. McLean
 Covina, Calif.

You overlooked one extremely important aspect of the global marketplace. World-class products must be built to metric specifications to be competitive. Europe has banned the importation of nonmetric products as of the end of 1992. The Japanese stated that the lack of metric specifications of American products is an impediment to trade with the U.S. It is high time the U.S. discards an outdated jumble of units.

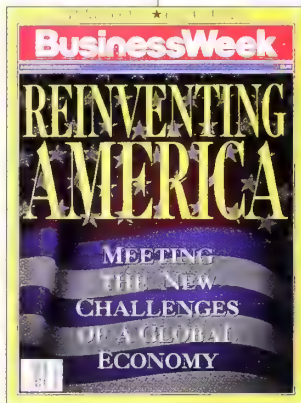
Hal Streckert
 Rancho Santa Fe, Calif.

The real estate recession from which we have still not recovered was a direct result of the Accelerated Cost Recovery System enacted in 1982, which led to a boom in commercial real estate construction and by the late 1980s, to a glut of underutilized office buildings and shopping malls all over America. The following bust contributed to the savings-and-loan association disaster. I realize that the BUSINESS WEEK plan calls for expensing equipment, not real estate, but you have to be very careful about tinkering with depreciation rules.

Burwell Goode
 Weston, Conn.

We should immediately initiate an industrial policy, appointing an Industrial Policy Board with full authority to "reinvent" our manufacturing base, reviving industries needed to provide jobs for our workers.

The formula was established by President Reagan in 1984, when he introduced "market sharing," giving the U. S. steel industry 80% of our market to enable the industry to survive unfair foreign competition. The results are history: The industry survived and prospered. Using the market-sharing approach,



BUSINESS WEEK
 DECEMBER 14, 1992 ***3297
 ISSN 0007-7135



Publication (weekly) except for one issue in January, by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Domestic: (800) 120-6000. International: (416) 320-6000. Cable: McGraw-Hill, New York. TWX: 710-81-1570. U.S. subscription rates: \$15 per year (2 issues), \$25 per year (4 issues). Single copies, \$2.75. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-534-1579.

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European Circulation Center McGraw-Hill House, Maidenhead, Berks, England. Telephone: 0628 23451. Telex: 948010. Postmaster: Please send address changes to BUSINESS WEEK, P.O. Box 100, Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Registration Number 9010. Registered for GST as McGraw-Hill, Inc. GST #R12307-5673. Copyright © 1992 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Patent Office.

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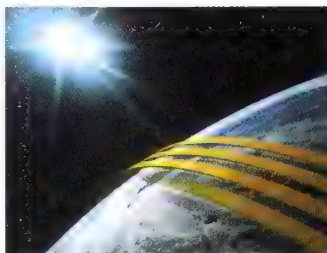
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Readers Report

CORRECTIONS & CLARIFICATIONS

able that accompanied the story
w managed funds managed to do
poorly" (Finance, Nov. 23) misstated
return of the Dean Witter Principal
s fund. The fund's actual return for
1 to Sept. 30, 1992, was a 7.7%

A bit of a rut at The Gap" (Market-
Nov. 30), we misstated the position
Kidder, Peabody & Co. analyst Jean
O'Neill. She has a "buy" recommen-
on on The Gap's stock.

ould swiftly revitalize the apparel,
electronic, auto, machine, ceramics,
outer-chip, and countless other in-
eries whose jobs have been consis-
y exported under unrealistic govern-
policies.

George Vargish
Saddle River, N.J.

ink you have covered all the
ses—but one. One of our nation's
important deficits at the moment is
moral deficit. And morality has no
foundation except in religion. The
rtance of morality and religion to
responsible exercise of freedom is
ere mentioned in your otherwise
rable issue.

R. Heath Larry
Delray Beach, Fla.

ost companies can no longer look
to cost for lasting competitive ad-
vantage. The new focus is on employees
ne essential investment in achieving
petitive differentiation. Making that
en, however, means restructuring
raditional workplace and developing
rk force with the skills and motiva-
necessary to compete in today's
h global economy.

C. Roland Stichweh
Managing Director
Human Resources
Consulting Services
Towers Perrin
New York

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new President, his Cabinet, and
members of Congress? It is focused
direct, and could serve as a model
their actions.

Richard A. Newman
Cincinnati

plaud much of "Reinventing Ameri-
My most important criticism cons-
s price stabilization. How much
er will we continue to rely on using
employment to stabilize prices? As

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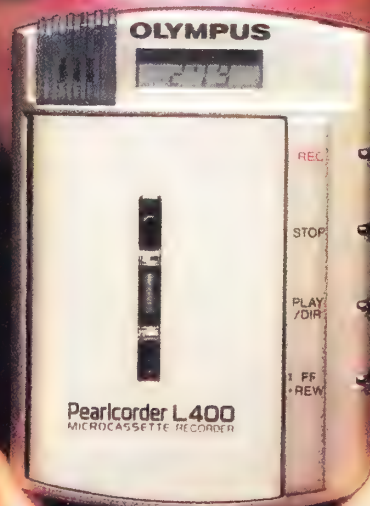
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Readers Report

nes suggested, in order to promote stability and growth in free-market economies, you need control over the money supply (the Fed does this), investment (government stabilization policies do this), and the wage-bargaining process—which we don't have.

government, business, and labor cooperate on an "incomes policy" to keep wage gains consistent with productivity gains, then there is no reason why we can't have a high-growth, low-unemployment, and low-inflation economy.

Ted P. Schmidt

Assistant Professor of Economics
Buffalo State College
Buffalo

Our country has become the nation that de Tocqueville predicted it would become in his book *Democracy in America*, written in 1830—a tyranny of the majority! Japan's subtle economic policies that glue the nation together will be needed, while ours, based on laws, will continue to decline.

Robert L. Tracy
Lancaster, Mass.

While I heartily agree with the objective, how do we get corporate leaders to take more clout?

After a long career in senior management, I have rarely seen one where the CEO took seriously the one (and only?) responsibility that really counts—namely, to select, realistically grade the performance of, and, when appropriate, take firm, timely action to correct unsatisfactory performance of the chief executive officer.

It seems to me we need rules that remove the board member selection out of the hands of the CEO. Good-ol'-boy cronyism towards shareholders, employees, and the economy of this country. Isn't it exciting to see the one notable current exception—GM?

Edward E. Hale
Florham Park, N. J.

There is an attempt to boil it all down to a few inclusive and versatile rules. Needed: tough-minded leadership, empowerment of people at all levels, massive service, individualism at all levels, and focusing with monomaniacal intensity on quality throughout society.

Joe Batten
Des Moines, Iowa

Our photo essay ("The face of the global economy") incorrectly credited the creation of basketball as an American invention." Rather, basketball was invented by a Canadian, Dr. James A. Naismith, a clergyman who is native of Almonte, Ont., and a gradu-

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So if you want professional quality videos, you don't need a network. You need the UCS3.

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THE DUTCH TRY A LITTLE WITHDRAWAL

Before moving to Europe, I'd heard tales of Dutch permissiveness: Amsterdam cafés that sell marijuana, squatters who are allowed to occupy historic town houses, and government-licensed prostitutes who hawk their wares from storefront windows. After quite a few business and pleasure trips to the Netherlands from my base in Brussels, I've heard a few more. Two recent favorites: A "Lolita law" makes it legal for kids 12 years of age to have sex without parental permission. And several towns now furnish "sexual-aid workers" for handicapped people who say they need sex once a month to avoid depression.

Such stories aren't as numerous as they used to be, however. Irrked by rising crime and diminishing tax dollars, the liberal Dutch are moving to the right. The mood of frustration over crime and past liberal excesses has spread from the top down. Prime Minister Ruud Lubbers, a fiscal conservative, twice chased and caught robbers who were trying to break into his wife's car, threw a knife-wielding mugger out of his own car, and lost \$55,000 worth of jewelry when his home was burglarized.

BEATEN BEGGAR. I first noticed the drift to the right in a news story last summer about addicts at Rotterdam's central train station. Five years ago, city officials designated an area behind the station where the addicts can buy cheap soft drinks, receive methadone, and deal in drugs without fear of arrest. From time to time, junkies wander out front to beg. The story reported that one put the bite on a Dutch marine's girlfriend. The boyfriend did what any self-respecting fighting man would do: He got 18 buddies to help stomp the addict.

The marine incident was a sign of local frustration. "People in the city don't like the addicts," says the Reverend Hans Visser, a Dutch Reformed minister who got the city to give addicts the site. "They're always stealing car radios

and bikes because they need money for drugs. People are just fed up."

Even the addicts sense the change. "They're cutting back on everything," says Yilmaz Ulgen, a naturalized Dutch citizen who admits he steals to finance his multidrug habit. "The welfare state is finished." Ulgen, a Turk, recently lost his electrician's job because of a turn-down in the Dutch economy.



Handouts are indeed scarcer in the Nasty Nineties. The Dutch center-left government is on a cost-cutting binge aimed at bringing down its deficit. Without such action, the Netherlands wouldn't be eligible for the European Community's planned monetary union.

The government's famous disability program is a prime target. Fully one-sixth of the work force is officially disabled, consuming \$12 billion annually in benefits. Of the approximately 1 million "disabled," who receive 70% of their last salary until age 65, a third are "psychologically" disabled, many of them merely stressed out by hard work or tough bosses. New reforms are aimed at saving \$2 billion a year, and payments are now limited to a few years for the psychologically disabled under 50. Other welfare programs are under review, too. No

wonder. Thirty years ago, the ratio of workers to welfare recipients was 3 to 1. Now, it's roughly 1 to 1.

Nonfiscal reform is also in the air. In November, tiny Groningen began a crackdown on men who tie up traffic cruising for illegal hookers, instead using low-cost parking and government-approved prostitutes in the "tolerance zone." Police now jot down license-plate numbers of lingering cars and send letters to the owners, advising them they are making a nuisance of themselves. City officials acknowledge some innocents may be hurt. "No scheme like this can be perfect," says one.

COUNSELOR. Reverend Visser is among those turning right. He favors replacing drug decriminalization with legalization, so addicts can be treated medically. And he still counsels transsexuals, pedophiles, and other "sexual minorities" on weekends.

He practices what he preaches. "I won't prohibit my children from using drugs or alcohol," he says. "What's forbidden is attractive." He has exposed his children, aged through 25, to the realities facing the addicts he helps. And he has counseled them about safe sex. "My children are free to do what they want," he says. "But they know what's good and what isn't." So far, one of his kids has had some problems with alcohol, but none of his kids uses drugs.

Even Visser's tolerance has limits. While we were talking in church, a strung-out addict burst in and demanded Visser's immediate attention. Visser politely asked the man to wait. But he refused and, after a moment, spit in Visser's face. The minister calmly wiped off the spittle and walked away. A few seconds later, church security people subdued the addict. The police arrived in minutes and hauled him away.

It turned out he wanted a room for the night. But Visser would have none of it. "I demand that people be polite," he said, a sign of the times.

PATRICK OOSTER, whose Dutch grandmother was a strict, reports from Brussels for BUSINESS WEEK.



YOU DON'T GO BACK TO BASICS. YOU TAKE THEM FORWARD.

There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

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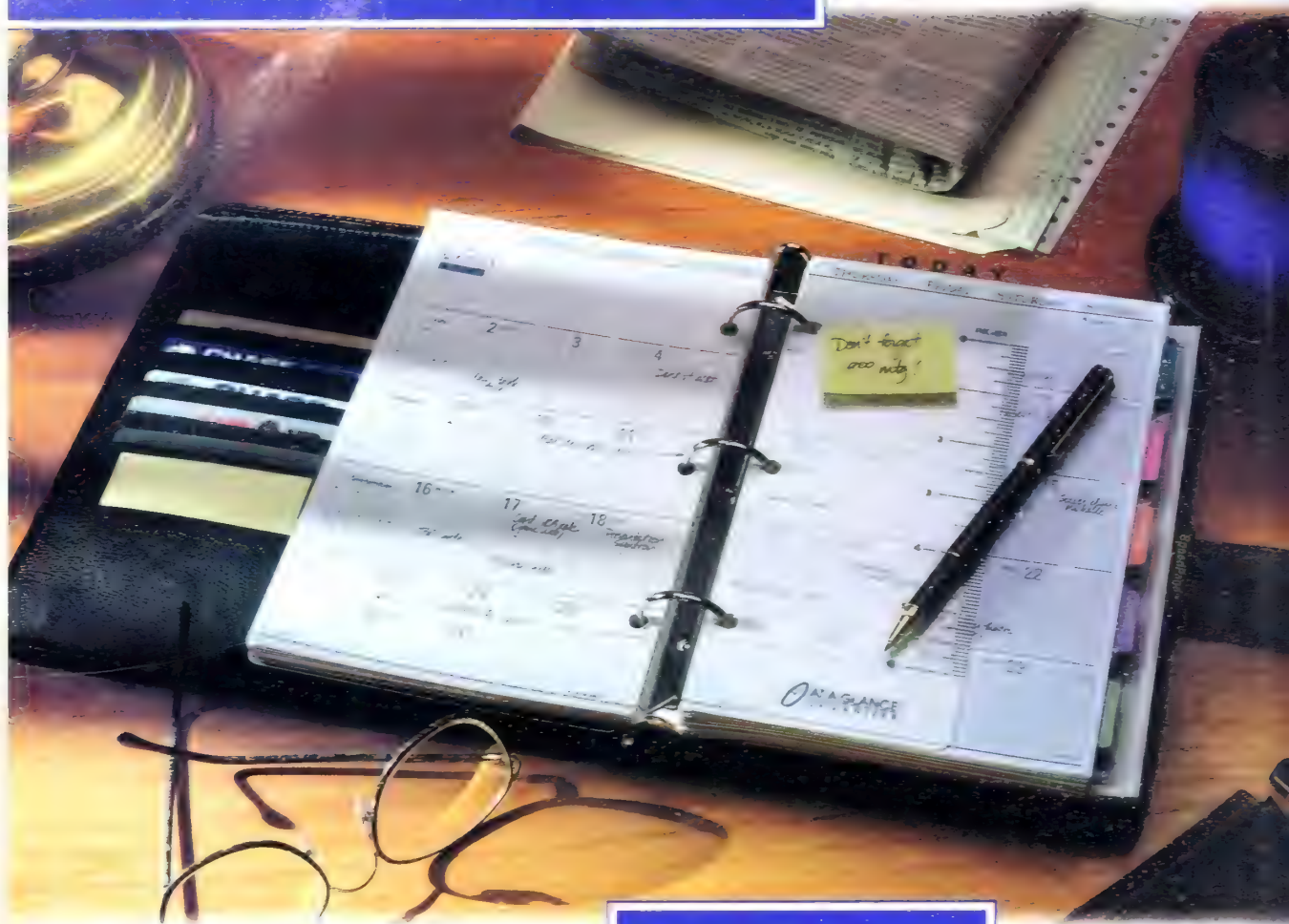
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Readers Report

of McGill University. Naismith invented basketball while he was working as an instructor at the YMCA Training School in Springfield, Mass.

Baseball would be the more appropriate sport that America created and that spread throughout the world, as evidenced by its popularity in Japan and its establishment in Canada by none other than the 1992 World Series champion, Toronto Blue Jays.

Christopher A. Ho
Edmonton, Alta.

Although we certainly appreciate the coverage provided, I wish to draw attention to an implication that is in the photo essay that Singer makes its sewing machines in Guangzhou. In fact, only a small percentage of our sewing machines are currently manufactured in China. Our major manufacturing locations are in Brazil, Taiwan, and Japan.

Ronald G. Peters
Vice-President for Finance
& Investor Relations
Singer Co.
Markham, Ont.

seemed the general thematic intertwined in most of your solutions is for government to do this or that. I had the idea the government was so very good at doing so many things. And, I had no idea the government does anything very well. I encourage you to return to what you do best—reporting on business—and leave fortune-telling to others.

John C. Hillman
Flower Mound, Tex.

For those counting on HCPCs [health-care purchasing corporations] providing a set fee to reduce charges: Setting the fee will hold charges, but it will not actually reduce the cost of providing the service, any more than having the government set the price of a magazine will cut the cost of issuing it.

What will happen is that either the quality will deteriorate or the service will not be made available. The overall cost will not be controlled until hospitals begin specializing in certain procedures and are able to achieve economies of scale. This would be a first step toward controlling costs while maintaining quality care.

James Hutchinson
Strongsville, Ohio

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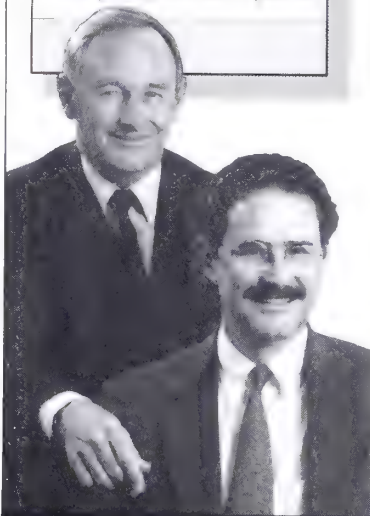
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Books

A LICENSE TO STEAL: THE UNTOLD STORY OF MICHAEL MILKEN AND THE CONSPIRACY TO BILK THE NATION

By Benjamin J. Stein • Simon & Schuster • 219pp • \$23

THE BIGGEST PONZI SCHEME OF THEM ALL?

If you believe Michael R. Milken was the most contemptible financial bad guy of the 1980s, I have just the book for you: *A License to Steal* will confirm your worst suspicions.

Although federal prosecutors pursued Drexel Burnham Lambert Inc.'s junk-bond czar for almost a decade, they failed to uncover the far-ranging pattern of egregious wrongdoing many observers had suspected. What they did find was related to stock trading, not junk bonds. But many Milken-watchers still think the bulk of Milken's malfeasance involved the junk market, which he all but invented and presided over for years. Surprisingly, none of the authors of the recent spate of Milken books explored Milken's junk doings in detail.

In *A License to Steal*, freelance financial writer Benjamin J. Stein vigorously

tries to rectify that oversight. Stein believes that Milken, whom he compares to mobster Meyer Lansky, was at the heart of a broad conspiracy that bilked investors, savings and loan depositors, insurance policyholders, and taxpayers out of tens of billions of dollars. The conspiracy's linchpin was junk bonds. Because of his absolute control of the junk market, says Stein, Milken could "artificially fix" junk prices "to give himself any level of commission or profit he wanted." That enabled Milken and a network of loyal cronies at financial institutions such as insurance companies and S&Ls to operate a gigantic Ponzi scheme. They would sell junk issues, then use the proceeds to invest in other junk issues.

To further fuel the Ponzi, says Stein, Milken and his cohorts persuaded a wide group of investment managers who ran

mutual funds, pension funds, and other portfolios to buy billions of dollars of junk. The sales pitch: While junk bonds might be riskier than higher-rated bonds, the rich return more than offsets the extra risk. Stein claims Milken deceived junk buyers by hiding evidence that the default rate of junk issues was much higher than he claimed. "Every thing," says Stein, "every lie and phony statistic was to preserve it as long as possible the basic untruths of the junk-bond scam."

To propagate the lies to ever-larger legions of buyers, Stein claims, Milken enlisted an extensive and impressive network of academics, rating agencies, regulators, accountants, politicians, and journalists who condoned—or declined to expose—the scam.

The purported Ponzi began disintegrating in 1989, after Milken was forced out of Drexel. That led to Drexel's demise in 1990 and the collapse of several junk-laden insurance companies, S&Ls, and other financial institutions. The conspiracy to conceal the true risks of junk, especially Drexel junk, persists even today, claims Stein, with firms such as Salomon Brothers, Merrill Lynch, and Morgan Stanley filling the void left

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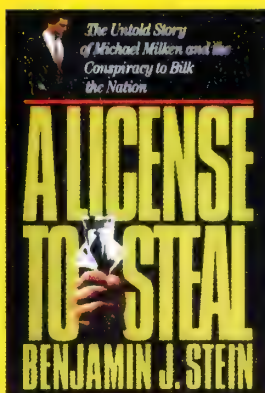
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Drexel. "The power players of junk are still powerful," he warns ominously.

True believers in Milken's villainy may buy Stein's thesis. More knowledgeable and skeptical readers probably won't, especially since Stein's book is long on assertions and short on documentation. A sometime Hollywood screenwriter and bit actor whose writings on Milken have been given wide exposure in *Barron's*, Stein has inflated a core of truth into an elaborate paranoid fantasy that often defies logic.

Stein's take may accurately depict the junk market in the early 1980s. By mid-decade, however, whatever conspiracy may have existed was waning. The market had expanded far beyond the Drexel network and attracted many other securities firms, which undermined Milken's power to rig prices. And it's improbable that Milken could have hoodwinked hundreds of professional investment managers into ignoring clear evidence of junk's excessive riskiness and inflated prices.

Stein has inflated
a core of truth
into a gigantic
fantasy that often
defies logic



As it turned out, junk was in fact overpriced. But because of the worldwide credit expansion of the 1980s, so were most other financial assets, most dramatically commercial real estate. A euphoric assumption prevailed that assets would continue to appreciate indefinitely. It was that euphoria, not some Milken-engineered plot, that deluded junk-buyers—and probably even Milken's cronies.

Stein's allegation that Milken ran a big Ponzi also seems farfetched. Junk

took a beating during 1990-91. But un-Ponzi-like, the market has rebounded handily. Stein's assertions about default, largely based on a 1988 study by Harvard University researchers, don't square with other analyses. Stein is right that annual default rates climbed above 5% during 1990-91, a time of sharp credit contraction. But default rates on original-issue junk were considerably below that through 1989, according to several studies. And while the Harvard study foresaw ever-rising de-

fault rates, actual rates are now declining. Furthermore, Drexel has had one of the lowest default rates of any of the junk underwriters.

Milken was clearly a prime architect of the debt explosion of the 1980s, whose dissolution cost investors and others billions. He may also have operated the junk market as a vast criminal enterprise. But that has yet to be proved.

BY CHRIS WELLES

Senior Editor Welles is a longtime student of Milken's life and times.

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ADAM SMITH MEETS ALBERT SHANKER

BY ALAN S. BLINDER



School choice isn't the only way to apply good economics to bad educations. As teachers' union chief Shanker suggests, incentives should be offered to principals and teachers who improve their schools

People are beginning to apply economic ways of thinking to one of America's largest industries: education. An economist can only applaud that trend. Yet the narrow focus of the current debate on "choice" as the be-all and end-all disturbs me.

Don't get me wrong, I support parental choice—at least within the realm of public schools. How could an economist oppose competition? (The use of tax money for private and parochial schools raises noneconomic issues not dealt with here.) But it would be a shame if the infusion of economic reasoning went no further than "more choice equals more competition equals better products at lower prices." While that is probably true, it is not the whole story. Once we start importing such words as "choice" and "competition" from economics into education, we should bring along some others, too: "rationality" and "incentives."

■ **Rationality.** Economic theory assumes that choices are made by rational and well-informed consumers who know their own interests best. It's a good working hypothesis in most applications, especially when you think about the alternatives. (Shall we assume the state knows what's good for me?) In the education "market," most parents are probably capable of making sound choices for their children.

But some are not. Some children are handicapped by what might be called incompetent parents: substance abusers, criminals, the mentally incompetent, or people who are simply irresponsible or disconnected from mainstream society. While such parents can be found at all rungs of society, we all know that they are disproportionately present at the bottom of the economic ladder. So, when we talk about choice, someone should remember the poor children who will be left behind. That's not a reason to oppose choice, but it's cause for concern.

■ **Incentives.** More than two centuries ago, Adam Smith discovered the secret to the success of the competitive marketplace: It lets you do well by doing good. In the standard economic model, the profit motive gives businesses a powerful incentive to produce quality products at low prices. There is no such incentive for public schools, but choice is supposed to mimic some of its best features by driving out weak schools. However, choice is just one way to provide performance incentives.

Teachers' union leader Albert Shanker has suggested an ingenious approach that he calls "incentive schools." The idea is to have a nationwide competition that schools—not school systems—could enter or not, as they pleased. The competition would last at least three years and be judged not by educational at-

tainment at the end but by improvement during the period. Thus, to borrow the apt metaphor of Senator Tom Harkin (D-Iowa), schools are born on third base would not be granted credit for hitting a triple. The top 10% must be declared winners, and their staffs rewarded.

The design of the system shows that Shanker is a good intuitive economist. First, success is judged by performance—the end result, not how you achieve it. That is how manufacturers are judged in a market economy: We examine the car, not the factory. Second, the people who work in the school, not some outside authority, decide what changes to make. That would effectively empower teachers and principals just as America's leading companies are now empowering their workers. Third, he envisions substantial rewards for winning schools—perhaps in the range of \$30,000 per employee. That's enough to create a substantial profit motive.

But the search for incentives must not stop with teachers. If parents are the "consumers" in this market and schools are the "companies," then educated kids are the product. Here the analogy breaks down. A car rolls down an assembly line has no mind of its own; things just happen to it. But learning does not take place unless the student cooperates. To some extent, of course, the teacher must be a motivator; this is standard education stuff. But wouldn't the enterprise work better if students had real incentives to perform?

They don't now, except for the small percentage of students who aspire to the top colleges. Other high school graduates fall into two categories. Those heading for low-ranked colleges know that some school, somewhere, will take them. It's the American dream. Those heading directly for jobs know that their high school grades are unlikely to affect their placement. In either case, good grades carry little reward. And you have to work much harder to get them! No wonder the average U.S. high school student spends a paltry 3.8 hours per week on homework.

This is where businesses could help. Suppose every company in the BUSINESS WEEK 1000 routinely asked young applicants for their high school transcripts—and used this information in hiring decisions. Students would suddenly perceive a payoff to working in school. Adam Smith had it right, they would work harder and learn more.

Some might object that kids learn little in school that's useful on the job. If true, that's a shame. But, even then, companies would lose much by favoring kids who perform better in school. And they would do society big favor.

ALAN S. BLINDER IS THE GORDON S. REENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF GROWING TOGETHER



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Those days are over. The market has matured. Customers are demanding more. And clone companies are faced with an ugly reality: the less you know about making computers,



the less likely you're going to be successful at it.

Writers in the press and financial analysts on Wall Street are even compiling lists as to which are about to go under. While all of these involve an amount of speculation on the part of their authors, you may

be surprised to learn many of the larger companies appear on the majority of them.

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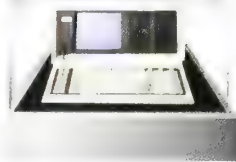
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BY GENE KORETZ

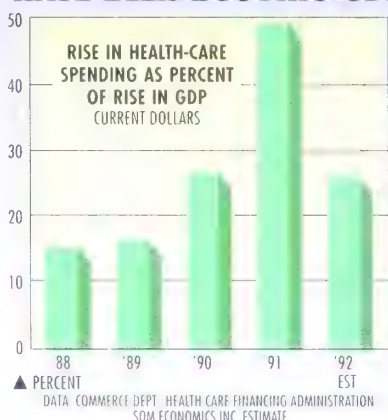
THIS SHORT-TERM TONIC HAS LETHAL LONG-TERM SIDE EFFECTS

Call it "a bedpan economy." One of the supreme ironies of America's inability to control its escalating health-care spending, says Robert Marks of SOM Economics Inc., is that such outlays have been "a significant source of economic strength in recent years."

The chart tells the story. As the economy slowed after 1988, fell into recession, and then crawled forward, increases in health-care spending accounted for an outsized share of the growth in gross domestic product. Indeed, Marks calculates that since 1988, health care has accounted for over 25% of the rise in current-dollar national output, and in 1990, when the economy declined in real terms, its share was just under 50%.

Similar effects show up in the employment picture. Marks notes that total payroll employment is up 993,000 since January of 1989 and 96,000 since the first quarter of 1991. But in the same pe-

HEALTH-CARE OUTLAYS HAVE BEEN BUOYING GDP



riods, health-care employment jumped 1.2 million and 466,000, respectively. In other words, says Marks, "in recent years health care accounted for all of the nation's job growth and then some."

None of this, of course, implies that rising health-care outlays are more than a short-term tonic for the economy. Such spending enriches health-care providers and benefits users, but economists agree that the ultimate effect of this is to weaken growth and productivity. "Unchecked health-care spending," observes Marks, "consumes resources that could be utilized more productively elsewhere and imposes considerable costs on the

economy and the American people."

A recent Congressional Budget Office report notes, for example, that business' rising health-care costs are ultimately passed on to workers through lower wages. Thus, one reason that real wages and salaries hardly rose over the past 20 years is that employers' contributions to health insurance absorbed more than half of employees' gains in compensation. Meanwhile, soaring outlays for medicare and medicaid are undermining efforts to reduce the federal deficit.

Unless the nation can control health-care spending, the CBO warns that its impact on national saving "will reduce investment and substantially cut future incomes—by almost 2.5% in 2002 and even more thereafter."

A MERE \$70 BILLION OVERCHARGE IN THE MEDICAL BILL

One area the Clinton Administration is likely to focus on in its efforts to tame the medical-cost monster is insurance fraud and abuse. In a recent report, the Government Accounting Office finds that "vulnerabilities within the health insurance system" allow unscrupulous health-care providers, including practitioners and equipment suppliers, to cheat insurers and government programs out of billions of dollars. The most common cost estimate: a cool \$70 billion a year.

In another report, the GAO describes an insurance-fraud scheme, hatched in California in the early 1980s, that allegedly grew to involve hundreds of physicians and numerous medical laboratories. Initially, the so-called "rolling labs" scheme used vans to transport medical equipment to provide "free" medical tests to elderly patients and then employed doctors to certify diagnoses in bills submitted for medicare reimbursement. Later expanded to include private insurers, the scheme is said to have spawned \$1 billion in fraudulent claims.

Why have such schemes succeeded? The GAO notes that individual insurers can't solve the problem by themselves. It advocates the creation of a national commission representing public and private insurers, state licensing agencies, state and federal law-enforcement agencies, and other parties to focus on such issues as standardizing claims procedures, exchanging information, and developing new regulations. What's sorely needed, says the GAO, is a "collaborative approach." That's exactly the kind of advice Bill Clinton has indicated he intends to take to heart.

ACROSS THE GLOBE, INFLATION SEEMS AN ENDANGERED SPECIE

While most industrial economies outside the U.S. appear to be flirting with recession, they share at least one singular achievement: a remarkable deceleration in inflation. The latest tally in the Conference Board International Economic Scoreboard, which tracks 11 industrial nations including the U.S., reports that the average inflation rate is now down to 2.5%, with five of the countries registering rates below 2% and none of the others above 5%.

Nations with inflation under 2% include Canada, Japan, Australia, New Zealand, and Taiwan. And reports from France, Sweden, Denmark, and Norway all show inflation rates below 2.5%.

The catch in this positive picture is that many nations have been raising interest rates to defend their currencies. And the coincidence of these actions with low inflation has pushed interest rates to enormously high levels. Economist Rosanne M. Cahn of Fidelity Boston Corp. calculates that real short-term interest rates in 12 European countries now average 8%. "Such high rates are ultimately unsustainable in the face of weakening economies," says Cahn.

A REVENUE SURGE THAT CAUGHT THE OMB BY SURPRISE

Disclaimers to the contrary, the evidence that the strength of the economy in the third quarter was much of a surprise to the Bush Administration as it was to the Democrats came late July, just two months before the end of the fiscal year, the Office of Management & Budget projected the fiscal 1992 federal deficit at \$333.5 billion, a number that proved some \$43.3 billion too high.

Economist John Youngdahl of Goldman, Sachs & Co. notes that one major reason OMB missed the boat was underestimation of corporate and individual tax revenues and of payroll-tax receipts. Corporate taxes came in \$6.1 billion above projections, while payroll taxes and personal income taxes were \$7.7 billion above the late July estimate. "The third-quarter jump in tax receipts," says Youngdahl, "indicates that the economy's surge was both real and apparently unexpected."

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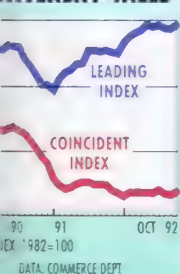
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THE ECONOMY IS STRONGER, BUT IT'S NO SCHWARZENEGGER

Is the U.S. economy finally beginning to show a pulse? Yes. Growth this year has averaged 2.8%, up from only 1.2% during the three previous quarters, and latest data look brighter. Is the economy ready to expand at the nearly 4% pace indicated by the gain in third-quarter gross domestic product? Don't count on it. The economy's better showing recently is the result of lower interest rates, rising profits, and faster productivity growth. This trio is chipping away at many of the structural barriers that have held growth back for so long. But the problems created by excessive debt, corporate restructurings, overvalued real estate, weak banks, and defense cuts are far from resolved. And the economy is most likely run into them again in coming quarters.

INDICATORS TELL DIFFERENT TALES



...oo, shows no upward momentum (chart). Other numbers from factories, retailers, and homebuilders also have improved recently, but the real attention-getter was the upward revision to last quarter's real GDP. The Commerce Dept. said the economy grew 3.9%, greater than the 2.7% gain originally reported. That makes third-quarter growth the strongest in nearly four years. But looking deeper, the report is less reassuring than the top-line number suggests.

INCOME GROWTH REMAINS HALTED

The GDP report reveals three problems that weigh on future growth: First, the jump in real GDP occurred without any rise in jobs or hours worked in the private sector. That means a robust gain in productivity, but not for household incomes. Consumer spending advanced modestly, but aftertax income did not increase at all. Second, nonfarm inventories rose last quarter at the fastest clip in two years, but manufacturing output barely increased. Imports appear to have accounted for some of the inventory buildup, but much of it may have been unintended. If so, future production growth will suffer. Manufacturing does appear to be gaining a little momen-

tum in the fourth quarter, but consumer demand will have to stay firm for that to continue. The purchasing managers' index of industrial activity rose to 55% in November, from 50.6% in October, according to the National Association of Purchasing Management (chart). In September, the index had slipped below the 50% line that divides expansion and contraction in the factory sector.

The NAPM said the overall index in November was the highest since May, as were the readings of the individual components for orders and production. Of particular note, the employment component of the index rose in November, suggesting that the erosion of factory jobs may be moderating.

The third problem that shows up in the GDP report is the trade deficit's growing drain on the economy. Excluding the drag from a wider trade gap, real GDP would have grown at a 3.6% pace so far this year, instead of 2.8%.

That drain will continue. Although exports advanced smartly last quarter, future foreign shipments will suffer from recessions in Japan and Europe. Also, imports will continue to come in at a faster clip, as U.S. growth picks up. This year, the merchandise trade deficit is on track to hit \$85 billion, and a recent Treasury Dept. report says the gap could exceed \$100 billion in 1993.

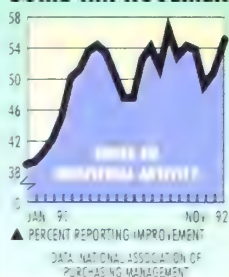
HOW LONG CAN THE SPREE LAST?

The most troubling of the three problems is the divergence in the growth rates of consumer spending and aftertax income. Commerce revised third-quarter consumer spending upward, from an already strong gain of 3.4% at an annual rate, to a 3.7% advance. Even as outlays expanded, though, households' real disposable income rose only 0.4%.

This split calls into question whether shoppers can continue their buying spree. The early reports on holiday shopping are encouraging. But if consumers continue to spend at a faster clip than their incomes grow, a merry Christmas could give way to a dreary New Year.

Incomes did get off to a good start this quarter, but one-shot deals exaggerated the gain. Both personal and aftertax incomes rose 1% in October. Even with a 0.4% rise in prices, earnings were up a hearty 0.6%. That jump, though, reflected a bounce-back in rental income after hurricanes Andrew and Iniki, increased farm subsidies,

PURCHASERS SEE SOME IMPROVEMENT



Business Outlook

bonuses to auto workers, and early-retirement payments to Postal Service workers. Excluding these factors, income was up 0.4%, the same pace as inflation.

The gap between income and spending growth is more compelling if you look back six months. From April to October, real consumer outlays rose at an annual rate of 3.4%. That's twice the 1.7% pace of real aftertax income.

Moreover, the special gains that boosted October incomes won't be repeated in coming months, so any significant pickup in income will have to come from growth in jobs and wages. Such gains have been almost nonexistent during the past one-and-a-half years. Excluding government transfer payments, real personal income is no higher now than it was at the end of 1990.

Without sufficient income, consumers have had to tap into their already low savings in order to finance purchases (chart). During the past three months, savings as a percentage of after-tax income stood at 4.6%, down from 5.5% last spring. Consumers have never gone into an economic upturn with such a low savings rate.

The hurricanes also affected consumer spending in October, when real outlays grew by 0.3%. Purchases of durable goods surged by 1.8%, with big spending on furniture, appliances, and building materials. These purchases probably reflected rebuilding from the storms as well as gains in home sales. Although housing activity proceeds in zigs and zags, home buying remains one of the brighter spots in the outlook.

In October, sales of existing homes zigged, while new-home sales zagged. Resales jumped 9.1%, to an annual rate of 3.6 million—the highest level in four years. Sales of new single-family houses dropped by 10.3% for the month, to a 600,000 annual pace, but sales during the past four months

have stayed above the 600,000 mark. Home buying has been that strong since 1989.

This healthy pace suggests further spending on home-related items, as well as increased activity in the building industry. Construction spending advanced by 1% in October, after a 1.8% jump in September. Rising outlays in residential building led the increases in both months in addition to demand for new houses, hurricane rebuilding will keep builders busy in coming months.

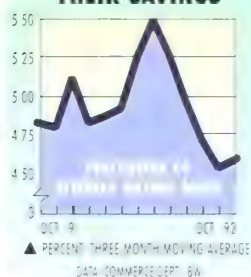
ILL WINDS BLEW NO GOOD FOR EARNINGS

The hurricanes not only destroyed homes but also battered corporate profits. Business losses and benefits paid by insurance companies subtracted \$42 billion from third-quarter earnings. As a result, pretax book profits fell 7% last quarter. Without the storms, earnings would have increased by 4.2%, to a record high (chart).

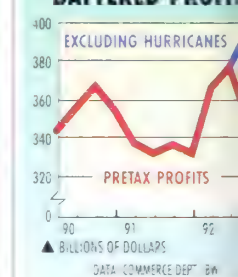
Despite the hurricanes, the operating profits of nonfinancial corporations managed a 1.6% rise last quarter. That kept operating profits as a percentage of output at 8.7%, the highest in two years. If businesses had not written off their hurricane-related losses, this margin would have continued its rise of recent quarters. That mainly reflects the slowdown in unit labor costs and the steep reduction in interest payments.

With earnings likely to improve this quarter, profit margins could swell past 10%—a level not seen since 1981. That will help corporations achieve the financial footing to expand payrolls at a faster pace. But companies will have to see a sustained pickup in demand—particularly from consumers—before they are confident enough to add workers. And job growth is what it will take to make this expansion feel like the real thing.

CONSUMERS DIG INTO THEIR SAVINGS



HOW HURRICANE BATTERED PROFITS



THE WEEK AHEAD

INSTALLMENT CREDIT

Monday, Dec. 7

Consumers probably added \$600 million to their debt loads in October, say economists surveyed by MMS International, a division of McGraw-Hill Inc. A modest gain in nonauto retail sales suggests that revolving credit continued to expand. But that was partially offset by a decline in auto financing, as indicated by weak car-buying in October. In September, installment debt rose by \$1.6 billion, the first increase in eight months.

PRODUCER PRICE INDEX

Thursday, Dec. 10, 8:30 a.m.

Producer prices of finished goods likely increased by only 0.2% in November,

just a bit faster than their paltry 0.1% advance in October. Excluding the volatile food and energy components, prices probably rose 0.2% as well, after they dropped 0.1%. Inflation, especially at the wholesale level, continues to cool. In October, producer prices were rising by only 1.6% over the past year.

CONSUMER PRICE INDEX

Friday, Dec. 11, 8:30 a.m.

The overall consumer price index probably rose by 0.3% in November, while the core inflation rate—which excludes food and energy—likely was up by only 0.2% last month. In October, the total CPI increased 0.4%, and the core rate rose 0.5%. But unusually large jumps in the costs of airline tickets, tobacco prod-

ucts, and housing accounted for most of the gains. In general, weak demand still keeping the lid on inflation.

RETAIL SALES

Friday, Dec. 11, 8:30 a.m.

The MMS economists do not expect that consumers started the holiday shopping season with a bang. Retail sales are projected to have risen just 0.4% in November, after a 0.9% surge in October. Excluding car dealers, store receipts probably rose a modest 0.5% last month after a 0.4% gain in October. That's in line with Johnson Redbook Services findings, published by brokerage firm Lynch, Jones & Ryan Inc., which shows that department-store sales alone rose by a so-so 0.3% in November.



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ROAD WORK AHEAD

FINANCING THE PROPOSED PUBLIC-WORKS BOOM WILL BE A CHALLENGE



CALIFORNIA FREEWAY: PROJECTS FROM BRIDGES TO FIBER-OPTIC NETWORKS TO HIGH-SPEED RAIL ARE ENVISIONED

Throughout his Presidential campaign, candidate Bill Clinton wowed prospective voters with his bold \$80 billion plan to boost spending on America's infrastructure. The Democrat promised to spend big on public works not only to jump-start the flagging economy but also to construct the data networks, superhighways, and high-speed rail lines needed to ensure American competitiveness into the next century.

Now, President-elect Clinton has a shot at turning that dream into reality. There's only one small problem: How can an Administration inheriting a \$300 billion annual deficit pony up the cash to—literally—rebuild America?

There's no shortage of funding ideas (table). A massive federal public-works finance bank. Infrastructure bonds for regular-Joe investors. Gas tax increases.

And even privatization of traditional government services such as building airports or refurbishing creaky bridges. There's only one firm rule: Everything must be done on the cheap.

ODD MIX. Congress will soon hear details of many of the plans. Last year it established the Infrastructure Investment Commission (IIC) to cook up ways to lure new capital into public-works projects. The seven-member commission—a mix of politicians, financiers, lobbyists, labor leaders, and a former Reagan Administration aide—is scheduled to report to Congress in January. But in mid-December, it will give a sneak preview of its findings to congressional leaders close to the Clinton camp.

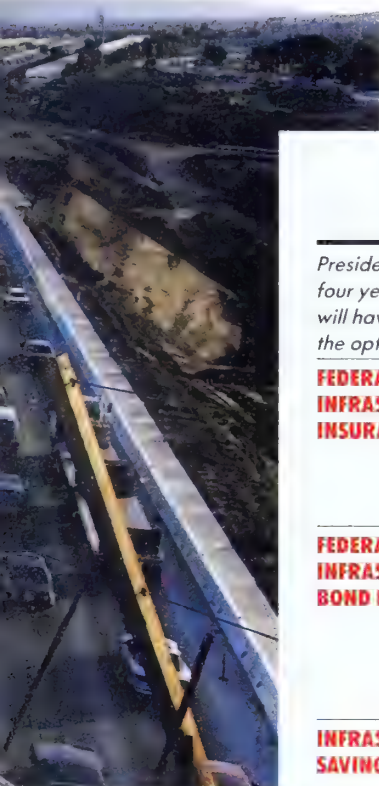
"President Clinton's determination to address infrastructure needs has given new urgency to the commission's efforts," explains Chairman Daniel V.

Flanagan Jr. "We hope to develop a comprehensive package that will get the new Administration and the Congress move on a fast track."

Flanagan believes the key to any Clinton infrastructure blitz may be figuring out a way to tap pension coffers. U.S. pension funds hold about \$3.1 trillion in assets. That's more than the current value of common shares trading in U.S. equity markets and almost equals the value of U.S. banking assets, says University of Notre Dame economist Teresa Ghossein. She estimates that the funds could swallow up to \$30 billion in new infrastructure investments.

Wooing the pension funds is easier said than done, however. Any attempt to dip into their vast pools of capital will renew the debate over the propriety of risking the retirement savings of millions of Americans. In addition, pen-

DECEMBER 14, 1992



s have long scorned conventional methods for financing state and local public projects. Since pension funds are tax-exempt, they have little interest in the low-yield, tax-free bonds that states and localities issue. Private financiers still haven't found a higher-yielding security that most municipalities can afford.

Pension fund managers haven't ruled out infrastructure investments, but are skeptical. "We're willing to look at whatever they come up with, but it has to be off-the-wall or esoteric," warns G. Bronner, chief executive of the Investment Systems of Alabama.

That's why the IIC is studying a proven winner, the College Construction Insurance Assn., known in finan-

cial circles as Connie Lee. Established by Congress in 1986, AAA-rated Connie Lee sells bond insurance that lets lower-rated colleges and universities sell their own construction debt in the private markets at lower rates and for longer terms than bank debt. Connie Lee has \$4.7 billion of insurance in force on a capital base of only \$102 million. Although it's federally sponsored, only Connie Lee—not the Treasury Dept.—is liable for defaulted college debt.

The IIC will propose next month that Congress establish a quasi-governmental infrastructure agency built on the Connie Lee model. It would operate an insurance fund to guarantee the debt of infrastructure securities. The fund could probably be capitalized initially for about \$3 billion, but still allow the new Admin-

istration seems ripe for political meddling.

The IIC commissioners are trying to build in safeguards against becoming another Washington gravy train. They plan to require states to provide due diligence on projects before they're considered by the federal agency. In many cases, states would be required to provide matching funds—a potential problem, since state governments are plagued by budget shortfalls themselves. The commissioners are also counting on the markets to keep the agency honest. Says one top official: "We believe the ratings agencies will force the discipline that's needed."

RISKY BUSINESS. Other IIC proposals, though, may give the markets reason to worry. One recommendation would allow the infrastructure corporation to guar-

antee the debt of some projects that are still in development or construction—a risky undertaking. To support such lending, the commissioners believe that the new corporation would initially require a credit line from the Treasury. That's sure to alarm the bond market. Says Public Securities Assn. Vice-President Micah Green: "I question the wisdom of providing government financing for projects too risky for tax-exempt financing."

The new Administration also needs to remember that the private sector has a way of disappointing government planners. Just look at Virginia's toll road project, the nation's first privately funded toll road in generations. Promoters promised that the 15-mile, \$1.75-a-trip tollway between Leesburg, Va., and Washington's Dulles International Airport would relieve traffic congestion while spinning off double-digit returns for private lenders.

Four years later, not an inch of pavement has been laid. Investor-owned Toll Road Corp. of Virginia has been unable to round up the \$310 million in construction financing it needs. Now, project officials are scrambling for federal highway funds.

Toll Road Corp.'s woes have cast a pall over the prospects for pure privatization of public works. That leaves government to do the heavy lifting when it comes to infrastructure. And at both the state and federal level, the options are few. Last year's \$150 billion transporta-

BANKROLLING THE INFRASTRUCTURE BINGE

President-elect Bill Clinton has proposed spending \$80 billion over four years on infrastructure. Federal, state, and local governments will have to find new ways to pay for the work. Here are some of the options that policymakers are considering:

FEDERAL INFRASTRUCTURE INSURANCE CORP.

A federally chartered body that would insure infrastructure projects, making investment in them more attractive to pension funds. It could guarantee \$80 billion worth of projects with only a few billion dollars in actual federal outlays

FEDERAL INFRASTRUCTURE BOND BANK

Besides insuring some project loans made by states and cities, this entity would sell its own bonds to purchase the debt of less liquid, lower-rated municipalities. But its proposed capitalization of about \$25 billion over five years may be too costly

INFRASTRUCTURE SAVINGS BONDS

Small-denomination, tax-free municipal bonds could be sold to individual investors. This would require changes in federal securities rules. And the bonds probably would draw far less revenue than securities targeted to pension funds

LETTING BANKS BUY MORE MUNIS

The Tax Reform Act of 1986 cooled banks' purchases of tax-exempt issues. Making it easier to issue bonds that offer banks preferential tax deductibility could steer relatively cheap capital to small localities

DATA: INFRASTRUCTURE INVESTMENT COMMISSION, REBUILD AMERICA COALITION, BW

istration to claim it is spurring projects worth up to \$100 billion.

But mimicking Connie Lee's success is by no means certain. With only 48 employees, the college lender is far less bureaucratic than any national infrastructure agency could ever be. And while the college lender is pretty much immune to political pressure, an agency funding billions in infrastructure proj-

Top of the News

tion bill made it easier for states and municipalities to charge tolls on roads and tunnels built with federal funds. But, says New York State Thruway Authority Chairman Peter Tufo, "adding tolls to a non-tolled facility is going to be politically very difficult." And the new Administration had better think twice before it dips into the \$30 billion surplus in the federal transportation and airport

trust funds. Any money withdrawn from the account increases the budget deficit by a like amount.

The infrastructure plans of many smaller municipalities would probably benefit more from federal tax law changes than from a national public-works corporation. The total cost to municipalities of reduced tax incentives for banks investing in muni bonds has been

\$1.5 billion since 1986, according to Rebuild America Coalition. But the chance for municipal finance relief breeze through Congress would probably ride on the coattails of a broad infrastructure agency package. And less a sugar daddy turns up, that chance may be a long time coming.

By James E. Ellis in Chicago,
Christina Del Valle in Washington

DOWNSIZING

THE PLANTS THAT GM WILL PROBABLY PADLOCK

The auto maker is finally ready to make the big cuts it vowed last year



The sword has been dangling over General Motors Corp. factories for nearly a year: Which ones will shut? Finally, the wait is drawing to a close. A day or two after a Dec. 7 board meeting, GM President and Chief Executive John F. Smith Jr. is expected to announce where the cuts will come.

By choosing which factories and cars survive and which die, Smith will offer his clearest signal yet on GM's future

direction. The message has been a long time coming: It was on Dec. 18, 1991, that the auto maker said it would close 21 factories, including six final-assembly plants. Since then, it has identified only two of the six plants that will be shuttered: a minivan plant in Tarrytown, N.Y., and the Willow Run big-car factory near Ypsilanti, Mich.

Meanwhile, GM workers across the country were left to worry about their

jobs. Local officials, reliant on GM tax dollars, crossed their fingers. At the full-size plant in Orion Township, Mich., UAW Auto Workers Local 5960 President Bernie Emory says: "We're anxiously waiting just as everyone else is."

What took so long? Turmoil at the top didn't help. But even without the recent management shakeup, which forced GM Chairman Robert C. Stempel, President Lloyd E. Reuss, and a handful of other senior managers, choosing which plant to close wouldn't have been easy (table). GM had to weigh each plant's work force, proximity to suppliers, local markets, productivity, and a host of other factors. The hardest decision of all was which cars and trucks to jettison.

COMPACT CALCULATION. In sports cars, for instance, Smith had to arrange to convert the 1996 Chevrolet Corvette to the same chassis as the Chevy Camaro before he could move Corvette production to St. Thérèse, Que., and therefore close the inefficient Bowling Green (Ky.) plant where 'Vettes are now made (box). To figure out how many small plants GM could close, Smith had to decide how many of the cars GM could produce during the next several years. Excluding the surging Saturn, GM has the capacity to build 930,000 compacts a year at plants in Lordstown, Ohio, and Lansing, Mich. That means he's unlikely to think that GM can sell almost 1.2 million sports cars a year, in addition to Saturn, and keep the Wilmington (Del.) plant open.

Smith's obvious move would be to drop GM's most inefficient plants. At Bowling Green, however, GM has many of similar mediocrity. In a recent study, Troy (Mich.) consultants Har-

ON GM'S WATCH LIST

PLANT	BOWLING GREEN, KY.	WENTZVILLE, MO.	OKLAHOMA CITY	WILMINGTON, DEL.	ARLINGTON, TEX.
PRODUCT	Chevrolet Corvette	Pontiac Bonneville, Oldsmobile 88, Buick Park Avenue	Buick Century and Olds Cutlass Ciera	Chevy Beretta and Corsica	Buick Roadmaster, Cadillac Brougham, Chevy Caprice
EMPLOYMENT	1,122	4,200	4,360	3,500	3,700
EARLY LINE	GM's least efficient plant. Saturn could step in to save it	In a tight race with Orion, Mich., Wentzville could be the loser	Its cars are due for replacement. Still, reputation for quality and proximity to Mexico could help	High-volume Lordstown (Ohio) and Lansing (Mich.) plants may make this one unnecessary	Americans must keep buying big, rear-wheel-drive cruisers to keep it open

DATA COMPANY
REPORTS, BW

Associates compared productivity at North American assembly plants owned by GM, Ford, and Chrysler. GM factories swept the bottom 10 spots. One of the plants' woes resulted from overly designed and tough-to-build cars and trucks. Others posted slow line speeds—a GM attempt to boost quality. That policy also hurts productivity. Even GM doesn't dispute the report's encouraging conclusions. Take GM's plant in Doraville, Ga., which now builds Oldsmobile Cutlass Supreme and has now promised the new minivan that will replace the one built at Tarrytown. It employs twice as many workers, 4,971, to assemble a car there as it does at Ford Motor Co.'s Taurus plant just down the road in Atlanta.

FINANCING ACT. Smith had to juggle political concerns, too. The Oklahoma plant's reputation for quality and labor relations may not have been enough to save it: Its aging Buick Century and Olds Ciera are part of GM's outdated midsize car line. But its proximity to Mexico and the effects of the pending North American Free Trade Agreement may tip the balance in its favor. Says Daniel D. Luria, a senior researcher at the Industrial Technology Institute: "Mexico is the wild card."

Then there's Canada. GM has two factories in Oshawa, Ont., building midsize cars, and a third assembling large pickups. An obvious cut? Maybe, but so far, only GM of Canada assembly plant is to close is the small Scarborough (Ont.) van plant. Exchange rates and higher health-care costs give Canadian plants a \$7.50-per-hour wage advantage over U.S. plants, estimates consultant James E. Harbour. Still, the Canadian Auto Workers union is seen as less amenable to working with management to solve GM's problems, and the UAW wants Canada to share the pain.

To cover the cost of its closings, the automaker already has taken a \$4 billion charge. Sanford C. Bernstein & Co. analyst Joseph G. Paul estimates that for every 10,000 employees who leave GM, it could save up to \$700 million a year. That's why Smith also aims to trim blue-collar ranks by 8,000 workers in 1993 and likely will also announce a new package of employee buyouts to do it. This round of plant closings will trim GM's capacity by roughly 1 million cars and trucks, to 5.4 million, but it won't solve its problems. Indeed, these shut-ins may not be the last: The Arlington (Tex.) plant that beat out Willow Run in a head-to-head contest may survive only as long as Americans keep buying its big cars. That means GM's plants and their communities may find Smith's decisions are final—but only for now.

By James B. Treece in Detroit

END OF THE LINE FOR THE 'HOME OF THE CORVETTE'?

Henry "Red" Hoerchler is one of General Motors Corp.'s gypsies. When the auto giant closed a St. Louis assembly plant in 1981, he uprooted his family and moved to Bowling Green, Ky., to help build Corvette sports cars. But after 2½ years of unsuccessfully trying to sell his old house in Breese, Ill., Red decided to move the family back. To see them, he has had to commute 520 miles round-trip every weekend for the past decade. "It's not a good situation," he lamented one recent afternoon, over a

the least productive Big Three assembly operation in North America, says a recent study by Harbour & Associates, a Troy (Mich.) consulting firm. It requires 11.37 workers to assemble each car, more than twice what Honda Motor Co. uses for the Acura NSX sports car. Despite the extra attention, quality is below the industry average. The factory also runs just one shift instead of the usual two.

Losing the Corvette, which may be built in St. Thérèse, Que., instead, would leave a gaping hole in Bowling

Green's economy. The annual payroll of \$48.7 million represents nearly one-fourth of the county's total manufacturing wages. Then there's the ripple effect: If the plant goes, an additional 6,600 non-GM jobs could go with it, the Commerce Dept. figures. "The majority of our customers are GM workers," says Tonia Bowles, a clerk at Baren River Beverages,



DAVE EVANS' JOB IS AT RISK, ALONG WITH 1,121 OTHERS

can of Busch at Dollie's tavern near the plant. But, he added, "You go where the job is."

Red might have to decamp again soon. The Corvette plant in Bowling Green is one of several inefficient factories that likely will be shut in the latest round of GM closings, scheduled to be announced as early as Dec. 7. If it gets the ax, many of the factory's 1,122 blue- and white-collar workers could lose their jobs. The closing would also shake up Bowling Green: GM is the third-largest employer in this quiet community of 45,000, located two hours southwest of Louisville. The auto maker is also its biggest taxpayers.

DEAD LAST. United Auto Workers officials and community leaders are optimistic that the factory will survive. "We're one of the few plants making money," asserts Billy G. Jackson, president of UAW Local 2164. And such folks as Dennis Griffin, president of the local Chamber of Commerce, figure it is unlikely to close because GM completely renovated the facility after taking it over from a Chrysler Corp. parts subsidiary in 1980. Saturn could also step in to keep the plant running.

But there are reasons to worry about its future. The Corvette plant is

near the plant. "If we didn't have them, we would be hurt bad."

Indeed, the closing would be a psychological blow to a community whose identity is so closely tied to the car. The cover of the tourist commission's guide proudly proclaims Bowling Green as "Home of the Corvette." About 40,000 visitors tour the plant each year. And backers of a National Corvette Museum—set to go up next year with the help of \$1.5 million in local donations—hope to draw 500,000. But "without the Corvette plant, the museum would lose its greatest attraction," laments Robert E. Aldridge, president of American National Bank & Trust Co.

Back at Dollie's bar, Corvette workers are trying not to think too much about their uncertain future. Many, like Red Hoerchler, have lived through closings before. After years of broken promises and sour relations with GM management, they've developed tough skins. Many say they're planning Christmas shopping sprees, just as in past years. Declares Dave Evans: "You can't let General Motors dictate your life." But neither can these workers dictate the fate of their factory.

By David Woodruff in Bowling Green

SCOTT MANN

WHY THIS ROUND OF LAYOFFS WON'T DERAIL THE RECOVERY

Signs of strength throughout the economy outweigh the cutbacks

This was the wrong sort of turkey. On the first day back after the long Thanksgiving weekend, almost 1,500 hourly workers at the Connecticut jet-engine plants of United Technologies' Pratt & Whitney Div. received an unwelcome present: layoff notices. On the same day, aluminum giant Reynolds Metals Co. offered early retirement to about 700 salaried employees in a move to cut costs, and American Airlines Inc. permanently eliminated more than 500 management jobs.

Just like last year, Corporate America is greeting the holiday season with a spate of job-trimming and cost-cutting. From insurance companies to computer makers, corporations are slicing their payrolls to make 1993 a better year for profits (table). General Motors Corp., for example, will pare 8,000 white-collar positions over the next year (page 34), and Boeing Co. is cutting production and chopping 2,500 jobs. Once again, economists and politicians are worrying that the reality of tens of thousands of layoffs—and the fear of more—will drive the economy back into the doldrums.

OLD NEWS. But this time around, those scary announcements won't knock the recovery off stride. In the past few months, the economy has edged onto solid ground: Third-quarter growth hit an unexpected 3.9%, real incomes rose in October (chart), and manufacturing orders are up. Retailers are reporting that Christmas shoppers are willing to crack open their wallets a bit more this year.

What's more, many of the recent announcements aren't new cuts. Instead, they reflect long-term downsizing plans made public months ago. Chevron Corp., for example, recently announced it was going to slice 1,000 positions from its San Francisco headquarters. While the

exact details were a surprise, the cuts were not, since Chevron committed itself in January to a major restructuring in response to sluggish energy markets.

While news of job cuts by big companies gets big publicity, less attention is paid to the steady stream of hiring in smaller businesses. Take the computer manufacturing industry, which has lost 18,000 jobs over the past year, including the well-publicized bloodletting at IBM, Digital Equipment Corp., and others. But over the same period, software and other computer services companies have

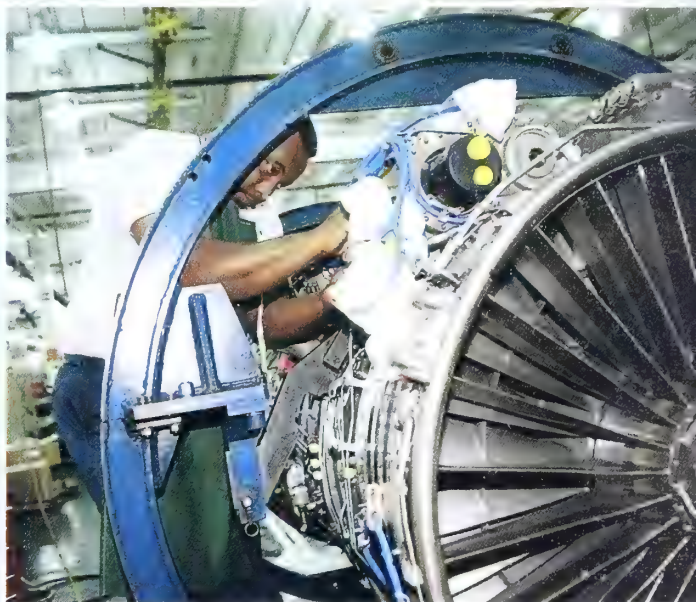
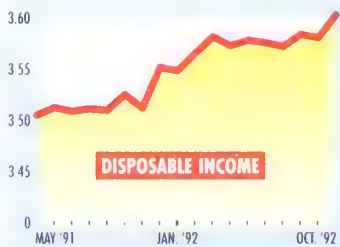
has more than made up those job losses. Sometimes, the same company doing the firing is doing the hiring. American Airlines is laying off managers, but will add more pilots, flight attendants and mechanics next year as it takes delivery of new airplanes. As a result, the company's head count of 97,000 is expected to rise in 1993. Polaroid Corp., too, plans to take on new people in its growing parts of the company such as medical imaging, even as it sheds about 300 jobs through an early retirement program in its photographic business.

FARMED OUT. Many of the staff jobs lost by corporations don't disappear—they're shifted outside the company to professional services outfits. Consequently, employment at management consulting firms is up. McKinsey & Co., for example, expects to grow in the U.S. by 10% this year. "Clients have been outsourcing policy-making and consulting services that used to be done internally," says Terry Williams, McKinsey's recruitment director.

THE JOB CUTS CONTINUE...

Company	Current or anticipated cuts
AMERICAN AIRLINES	576
BELLSOUTH	8,000
BOEING	2,500
DIGITAL EQUIPMENT	7,000
PRATT & WHITNEY	1,470
CHEVRON	1,000
TRAVELERS	5,000

...BUT INCOMES ARE RISING



PRATT & WHITNEY: DEFENSE-RELATED LAYOFFS AREN'T OVER YET

added 26,000 jobs. Even in New England, many skilled workers laid off from DEC, Data General, and Wang Laboratories have found jobs with smaller businesses in software, telecommunications, and other areas. A new survey from the Massachusetts Software Council says software companies intend to boost their Massachusetts employment by 17% over the next year.

And you would never know from the news that more people are working in financial services this year than last. Insurance companies such as Travelers Corp. are cutting their payrolls sharply to boost efficiency, and banks are still slimming down. But a solid increase in securities-industry employment, driven by near-record profits on Wall Street,

says Terry Williams, McKinsey's recruitment director.

Right now, the biggest drag on the economy is layoffs at defense contractors. Over the past year alone, the major defense-related industries have shed 140,000 manufacturing jobs, and there are likely more to come.

Still, economists expect a rebound in the economy to generate a million or more jobs over the next year, enough to absorb the job losses at defense contractors and problem companies such as Polaroid. That means that while the latest layoffs may slow the rebound, they're not about to bring it to a dead stop.

By Michael J. Mandel in New York, and Julie Tilsner in New Haven and bureau reports

LETHAL WARES: IF ONE NATION SLEEPS, A NIGHTMARE FOR ALL

Unsettling scenes from around the globe: Russia, Ukraine, and Kazakhstan auction off chunks of the former Soviet arsenal. Nuclear annabes Iran and Pakistan edge closer to success, thanks to covert purchases of plutonium and a booming international trade in commercial technologies for making atomic bombs. And now comes word that Washington may sell once-top-secret espionage satellites to such allies as South Korea and the United Arab Emirates.

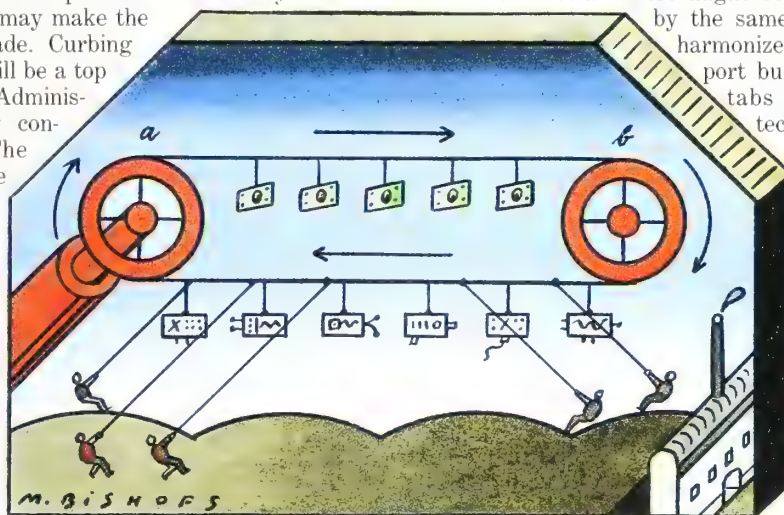
All nations face a worldwide proliferation of technology that may make the 1990s a dangerous decade. Curbing the spread of weapons will be a top priority for the Clinton Administration—and a growing concern internationally. The Coordinating Committee for Multilateral Export Controls (COCOM), the agency that monitors exports to the former Soviet bloc, adopted strict rules in late November for transferring high-tech items to these new democracies. To qualify for such transfers, they must meet controls and prove there are no holes.

TAUNT MEASURES. But COCOM's European focus misses many nations selling "dual-use" equipment: high-tech commercial items that can be diverted to military use. Once, its technocops could control technology flows by focusing on NATO and the Warsaw Pact. Now, second-tier exporters—such as Brazil, China, Israel, and South Africa, plus such newly industrialized Pacific Rim players as South Korea and Taiwan—are selling sophisticated weaponry, commercial nuclear reactors, and high-powered computer chips.

Meanwhile, Washington's attempts to control the flow is like a finger in the proverbial dike. Often, it's the strictly industrial products that get

stopped—at a heavy cost to American business. As exporters such as Boeing, IBM, and Intel will point out, the U.S. uses blunt measures, such as bilateral trade sanctions, to control high-tech exports and pursue other foreign policy goals. These curbs have lost American companies precious overseas business to foreign rivals, whose governments are less discriminating about selling to such countries as Iran or Vietnam.

Balancing foreign-policy goals with the realities of export competition will be a key test of the new Administration.



stopped. That would require the world's major exporters to agree on common menaces, and then to ban dual-use exports to them. It won't be easy. At last summer's economic summit, America's overtures on controlling high-tech trade were not warmly received. "We can all agree on Saddam Hussein and Qaddafi, but that's about it," says a Dutch export-control official.

In that case, Clinton may have to open the export gate for many widely available items—or risk sabotaging U.S. exports that he's counting on to make his own economic growth agenda happen. Intel Corp. faces an average wait of three months for permission to export specialized—though hardly

rare—gaskets and valves to its semiconductor plant in Israel. Why? They could conceivably be used to make missiles. Clinton senior defense adviser John Holum agrees that the process is outdated: "There are plenty of items on lists simply because nobody has bothered to take them off," he says. In exchange for regulatory relief, companies must share the burden of checking the credentials of foreign customers.

TALL ORDERS. Building a consensus among the world's major arms exporters might be easier if they all played by the same rules. They should also harmonize control lists, so that export bureaucrats can be keeping tabs on the same sensitive technologies.

Of course, buyers need close monitoring, too. Developing countries that are interested in owning a satellite launch system, for example, should permit third-party inspections to ensure that the technology is used only for civilian purposes. And the major industrial nations should regularly share data to detect illicit weapon programs.

At home, the Clinton Administration must improve controls. Now, an applicant for an export license must consult six major control lists, each administered by up to five different departments. One Clinton insider says the President-elect may give sole export-control authority to his new Economic Security Council, streamlining the licensing process.

Refashioning the American export-control policy and building an international coalition to check proliferation are tall orders for a new President. Yet Clinton has little choice. The alternative is a world of potential enemies—all armed to the teeth with high-tech weaponry.

THREE STEPS TO BETTER EXPORT CONTROLS

GET ALLIES ON BOARD

The U.S. and its partners cooperate well in controlling exports to communist and former communist nations. But the Clinton Administration must win support on stemming dangerous exports to new trouble spots

DEMAND FULL DISCLOSURE

Developing countries that claim to want high-tech items for purely commercial purposes must agree to outside inspections. The major nations should share intelligence data to stop illicit diversions

CENTRALIZE AND STREAMLINE

The U.S. should cut from five to one the number of agencies that have a say in granting export licenses. Controls should be removed from items such as laptops and some common machine tools

EXECUTIVE PAY

CLINTON STARTS A STAMPEDE

Execs rush to cash options for fear of a penalty tax on excessive pay

Call it "the big flush." Fearful that President-elect Clinton will impose a penalty tax on excessive executive pay next year, corporate chieftains are beginning to cash in stock options and other bennies in the final weeks of 1992.

Leading the pack are Walt Disney Co.'s two top executives, who picked up more than \$250 million on Nov. 30 by taking options on 6.6 million shares of the company's stock. Chairman Michael D. Eisner exercised 5 million options dating from 1984, a transaction that brought him a record \$193 million stock-option gain. President Frank G. Wells exercised more than 1.6 million options, for a \$63 million gain.

Eisner said he took the action because of the likelihood of a new penalty tax. "Disney has the right to make its execu-

tives rich as Aladdin," says Senator Carl Levin (D-Mich.), who has held hearings on executive pay. "But its books ought to show their wealth came out of the company's coffers at shareholders' expense."

Earlier this year, the House and Senate passed legislation that would have barred companies from taking a deduction on annual pay in excess of \$1 million per executive. Bush vetoed the tax package that included this measure, but Clinton is expected to approve it next year. Disney said eliminating the tax break would have cost it \$80 million to \$100 million on the options exercised by Eisner and Wells.

'RHETORIC.' Although Eisner says he exercised his options to save shareholders money, the Disney chairman may have saved himself \$15 million in personal taxes, estimates executive pay critic Graef S. Crystal. That's because Clinton is expected to raise the maximum tax rates for individuals earning more than \$200,000 and to impose a surtax on those



DISNEY CHAIRMAN EISNER
REALIZED \$193 MILLION

making more than \$1 million a year. "There's going to be a stampede of people doing this," predicts Crystal. "They close out these options with the rhetoric that they're saving the shareholders money."

Many executives exercise options that, if exercised, would be worth millions. Stephen A. Wynn, chairman of Mirage Resorts Inc., exercised a pile of 1983 options for a \$3 million gain on Dec. 1. Leon C. Hirsch, chairman of U.S. Surgical Corp., could cash about \$22.9 million if he triggered his currently exercisable options at recent stock prices. Hirsch could not be reached for comment.

Executive pay consultants say that executives are not only cashing in on stock options but are also accelerating year-end bonuses and claiming deferred compensation to evade higher taxes this year. Now, they had better hope Clinton can't find a way to make his retroactive.

By John A. Byrne in New York

EXECUTIVE SUITE

IBM'S HEIRS APPARENT?

One of the five new senior veeps may succeed Akers in 1994

As the computer industry wrestles with massive change, nobody involved is getting more attention than IBM's chairman and chief executive, John F. Akers. He swept all heirs apparent out the door about a year ago and since has seemed determined to tackle IBM's problems on his own.

On Nov. 25, however, Akers promoted five executives to senior vice-president. The company warned against reading too much into the move, and analysts such as Robert Djurdjevic, president of Annex Research, say the elevations contain "no secret messages about succession." But the clock is ticking for Akers, who in 1994 will turn 60 and, if IBM tradition holds, retire. Akers could hang on, of course. But with no clear successor in sight, handicappers can't resist evaluating the five new senior

vice-presidents: Ned C. Lautenbach, head of Asian marketing; Robert J. LaBant, U.S. marketing chief; M. Bernard Puckett, a software and services executive; James A. Cannavino, who has charge of desktop systems; and Ellen M. Hancock, IBM's networking chief.

RATING THE FIELD. All have strengths that an IBM CEO could use. LaBant proved his marketing mettle overseeing IBM's AS/400 minicomputer, now a \$14 billion business for IBM. The key strategy: a strong focus on software for specific industries. Similarly, Lautenbach once oversaw IBM's investments in scores of small software companies.

Cannavino's experience ranges from mainframe development to running IBM's besieged personal-computer group.

Hancock, Big Blue's highest-ranked woman ever, brings strength in telecommunications, a key technology for the future. And Puckett, a southerner known within IBM for his serious demeanor, has valuable marketing and mainframe-development experience.

Lautenbach, some ex-IBMers say, is the strongest candidate. If IBM's performance continues to disappoint investors, though, Big Blue might, for the first time, turn to an outsider for CEO. Now, according to an outside director recently quoted in *The Wall Street Journal*, the board continues to back Akers. He remains, however, under fire from stockholder groups.

Whoever gets the job will have plenty to do. "There's a total lack of vision," says one former top IBM executive. The company is betting too heavily on its product groups, he says, and not enough on understanding specific industries. Akers "sure as hell isn't putting a jolt of electricity into the company," the ex-IBMers say.

An outsider might deliver the right voltage. For now, Akers can only hope, as President-elect Clinton is doing, that the real signs of economic recovery are true. If so, both men could avoid more drastic interventions.

By John W. Verity in New York



IBM COMPUTERS: IS BIG BLUE TOO PRODUCT-ORIENTED?

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AT TELEDYNE, A CHORUS OF WHISTLE-BLOWERS

Workers charge the defense contractor with a pattern of corruption

Shortly after starting work at Teledyne Systems, Klaus Kirchhoff was told that the defense contractor kept two sets of books. There was the thick white binder filled with "official" cost estimates for the Pentagon. Then, Kirchhoff alleges in a 1989 lawsuit, there was the green binder, containing different numbers for identical work. "I was told to keep it under lock and key at all times," charges Kirchhoff, who worked as a contract costs analyst in 1988. "It seemed illegal as hell."

Kirchhoff isn't alone in his harsh assessment of Teledyne Inc., a \$3.2 billion-a-year conglomerate. The Pentagon contractor is fighting suits that have battered its stock and could bar it from defense work, which contributes revenues of \$1.3 billion a year. The suits aren't just by isolated whistle-blowers, either. The Justice Dept. has joined in three whistle-blower cases unsealed since 1990.

The bombshells keep landing. BUSINESS WEEK has learned that congressional investigators will meet on Dec. 4 with Egyptian diplomats to discuss charges by a former employee that Teledyne executives made \$1.5 million in illegal payments to a retired Egyptian Air Force general to

secure lucrative contracts. The allegations, made in a still-sealed whistle-blower suit, also are being probed by the Federal Bureau of Investigation.

The known suits against Teledyne seek \$890 million in damages, which could be trebled under the federal False Claims Act. In the worst case, which is highly unlikely, damage awards and penalties could surpass Teledyne's \$1.1 billion in assets. The company won't comment on specific allegations. But a Teledyne spokesman says it is prepared to take reserves against future judgments. "We certainly will, if and when it becomes clear whether there

is something to quantify," he says. Trouble has been brewing at Teledyne for some time. In early November, the Los Angeles-based company pleaded guilty to 35 counts of falsifying test results in a criminal case stemming from one of the suits that the Justice Dept. has joined. The company agreed to pay a \$17.5 million fine. The Pentagon then temporarily suspended Teledyne's Relays Div. from bidding on future contracts. The suspension may be extended, says a Pentagon insider.

The disturbing allegations don't stop there. Taken together, the whistle-blower suits portray divisions that cut corners and sacrificed quality on military work. The Relays suit charges that inadequate testing equipment was not replaced. At a Teledyne Controls plant, another suit, workers unable to read the Pentagon's rigid specifications were hired to solder circuit boards.

RICH BRIBES. Teledyne also allegedly ignored complaints by those it hired to ensure quality. In the Controls suit, which Justice joined in 1991, former Teledyne employee Marianne Gendron charges that her complaints about poor equipment and improper training led to her banishment to a dingy corner of the plant. Moreover, Gendron alleges in an interview that she saw a Teledyne executive pay a Defense Dept. inspector to assure his approval of shipments of untested components. The Teledyne spokesman points out that the allegations aren't part of Gendron's suit.

Payoffs are central to a still-sealed whistle-blower suit filed by Stephen Reddy, a onetime program manager at Teledyne Electronics in the Middle East. He charges that Teledyne paid a retired Egyptian general \$1.5 million in cash and provided him \$288,000 for a Caribbean flat. The money allegedly paved the way for the company to get at least \$23 million in Egyptian Air Force contracts.

Teledyne may also have been charged the U.S. \$35 million for cost overruns on Egyptian equipment. Teledyne says it can't comment on a case that is under seal, but that it is unethical for others to do so.

The Teledyne spokesman says any wrongdoing was "certainly not motivated by action from the corporate office." But as Congress continues its probe of the Egyptian case, the company may find it has to explain how so many of its divisions could run afoul of the law without headquarters knowing.

By Eric Schine in Los Angeles

THE LAWSUITS THAT COULD TORPEDO TELEDYNE

Business unit	Allegations	Potential liability
TELEDYNE RELAYS	Improper testing, overbilling	\$1 billion
TELEDYNE CONTROLS	Selling defective components, buying substandard parts, using unskilled labor	\$300 million
TELEDYNE SYSTEMS	Overbilling	\$250 million
TELEDYNE ELECTRONICS	Bribery of a foreign official, false billing	\$300 million
Total potential liabilities		\$1.85 billion
Teledyne's net worth		\$504 million

DATA: COURT DOCUMENTS, COMPANY REPORTS, BW

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HOW SWEET IT ISN'T AT NUTRASWEET

Monsanto's U.S. monopoly ends Dec. 14, with rivals and buyers poised

Holiday cheer is in short supply at Monsanto Co. Less than a week before Thanksgiving, the St. Louis chemical maker announced a major restructuring, including layoffs of 10% of its 32,000 employees, resulting in a \$425 million fourth-quarter charge. Monsanto's troubled G. D. Searle & Co. pharmaceutical unit will bear the brunt of the cuts, losing 2,250 people—near-

ly 25% of its work force. might sell all or a piece of the unit to Japan's Ajinomoto Co., its aspartame joint-venture partner in Europe. But it also may decide to invest little and continue to pull out cash—albeit less than in the past.

Even without competition, NutraSweet's prospects are iffy. Sales growth for diet sodas, which account for more than 70% of the sweetener's volume, has

dropped by 50% in the past few years, to 3% annually, as consumers have turned to bottled waters, juices, and tea. And NutraSweet is essentially a one-product company. Its Simplex fat substitute hasn't lived up to early hype,

turning into strictly a niche play. In mid-November, NutraSweet closed down its Simple Pleasures fat-free ice-cream business and laid off 51 workers. The company is working on an egg with 90% less fat and cholesterol and a sweetener that's 500 times sweeter than aspartame. But both are years away from a commercial rollout.

NutraSweet is maneuvering to minimize the loss of its patent, at least for the next year or two. It has spent some

\$20 million a year to build consumer recognition of its logo, a red-and-white swirl, and will continue to do so, says President Lauren S. Williams. And promoting aspartame as a substitute for sugar, since after the price cut, the cost will cost about the same for the same amount of sweetening.

While the company's dollar sales, which sink along with prices (chart), its income should hold up better. Many buyers have been delaying purchases of artificial sweetener until the patent runs out, so profits may actually rebound slightly next year. Robert S. Reitzes, search director for C. J. Lawrence & Associates, estimates that NutraSweet's profits will drop 20% this year, to \$138 million, then rise 9% in 1993, to \$150 million.

CRACKS IN THE WALL. NutraSweet has lined up long-term supply deals with April with Coca-Cola Co. and PepsiCo Inc., which buy 65% of all the aspartame made worldwide. But a Coke spokeswoman acknowledges that the soft-drink giant has signed a worldwide contract with Holland Sweetener, too. Industry sources say Holland could supply some of Coke's U.S. operations.

Holland already has about 35% of the European market for aspartame, thanks in part to antidumping penalties as low as \$33.20 a pound on imported NutraSweet. To level the playing field, NutraSweet and Ajinomoto are jointly building an aspartame plant in France that will begin operation in late 1993.

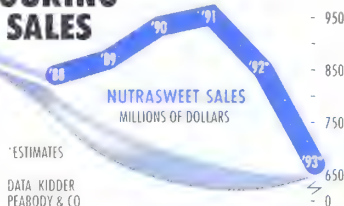
On a practical basis, Holland could give NutraSweet much of a run in the U.S. right away. Despite Dooley's stated goal of eventually achieving a 50% share, "they have limited capacity,"

they can't sell a lot" to American buyers, notes Michael F. Weinstein, president of beverage producer A&W Brands Inc., who has held discussions with Holland.

Longer-term, NutraSweet will face a bigger challenge from alternative artificial sweeteners. Both Johnson & Johnson and Pfizer Inc. are seeking Food & Drug Administration approval for sweeteners, while others, including Coke, have been developing new options, too. And some of the alternatives purport to don't share NutraSweet's major drawback—a tendency to lose sweetness when it is exposed to heat and high levels of acidity. Add it all up, and it's clear that NutraSweet is leaving a lot of folks at Monsanto with a bitter aftertaste.

By Lois Therrien in Chicago
with Patrick Oster in Brussels
Chuck Hawkins in Atlanta

SOURING SALES



ly 25% of its work force.

Now, just up the road from Searle's Skokie (Ill.) headquarters, another shoe is about to drop. Employees at Monsanto's NutraSweet Co. unit in Deerfield, Ill., are bracing for Dec. 14, when the lucrative U.S. patent for the artificial sweetener aspartame will expire, breaking NutraSweet's lock on the \$700 million domestic aspartame market.

Losing the monopoly will have grave consequences for NutraSweet. For starters, prices will plummet by about one-third, from roughly \$45 a pound to \$30 a pound, figures Paul Leming, senior vice-president at Kidder, Peabody & Co. And there will be new competition in the U.S., which accounts for 80% of the world aspartame market. Holland Sweetener Co., a joint venture of chemical makers DSM in the Netherlands and Tosoh Corp. in Japan, has been making aspartame for Europe and Canada since Monsanto's patents began running out there in 1986. It plans to begin shipments to undisclosed U.S. buyers on Dec. 15, says Ken Dooley, Holland's vice-president for North American marketing.

R&D CAVITY. The patent expiration means wrenching changes for Monsanto, too. NutraSweet's cash flow has funded Monsanto's research budget and propped up its sales and earnings for nearly a decade. With the sweetener's best days behind it, some analysts speculate that Monsanto



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STAFCOR SAYS ITS WORKERS ARE COVERED BY A COMPANY-ADMINISTERED COMP PLAN

HOW WORKERS' COMP COULD GET MANGLED

One company may have found a way to stop paying into California's fund

It started routinely enough. Two months ago, armed with orders from California's Labor Standards Div., state officials arrived at a two-story storefront building next to a Texaco station in Torrance, Calif. Once there, they served papers ordering the occupant, an employee-leasing company called Stafcor that supplies large groups of garment workers to Los Angeles employers, to either procure temporary workers' compensation insurance or shut down.

But what started out as enforcement on a routine bit of state regulation has become the latest—and possibly most significant—challenge yet to California's wobbly \$11 billion-a-year workers' compensation insurance program.

LOOPHOLE. Stafcor, a unit of Dallas-based Employee Staffing Services Inc., successfully blocked California's order in federal court in San Francisco. The temporary restraining order may not hold for long. But the issues raised won't die soon. Indeed, California officials openly worry that the little-known case could allow dozens of other companies to escape paying into the state's workers' compensation fund. "A lot of other companies would just love to do the same thing as this one," frets Lloyd W. Aubry Jr., director of California's Industrial Relations Dept., which administers the workers' compensation program. "That means a weaker program and some workers that may eventually suffer."

At issue is Stafcor's method of coverage. Using a plan first developed in Texas, where workers' compensation is voluntary, Stafcor administers its own workers' comp program by combining it with its health-insurance plan. The company claims that its so-called "24-hour program"—it covers workers on and off the job—is entirely legal under the federal Employee Retirement Income Security Act of 1974 (ERISA).

That federal law, passed to guarantee workers' pension benefits, gives Stafcor the loophole it needs to avoid California's more rigorous workers' compensation regulation, the company claims. By doing that, says Stafcor's San Francisco-based attorney, Karen E. Ford, the company can provide workers with full benefits while saving as much as 40% of the average \$4 to \$5 per \$100 of payroll that California companies now pay to cover their workers in the state's program.

California officials say they can't challenge such numbers because they don't have enough information about Stafcor's

Wracked by exploding legal and medical costs, California's premiums are among the highest in the nation

operations. And they can hardly dispute the underlying problem that led Stafcor to go its route: Wracked by exploding litigation and medical costs, California workers' compensation premiums are now among the highest in the nation. In the past decade, the premiums have risen at an average rate of 10% annually.

But Stafcor's approach could address other problems, such as forcing an overwhelmed federal court system to resolve payment disputes routinely handled by the state administratively. And it could lead to bands of underfunded companies that lack the resources to handle major claims. "It could be open season for a lot of disreputable companies," says J. M. Rea, chief counsel for California's Industrial Relations Dept. "They'll provide the cheapest coverage around, and you'll never get a cent from them."

PULLING THE REINS. The case has implications beyond California. Employers in Oklahoma, Texas, and New Mexico have adopted programs similar to Stafcor's, says Rea. Already, some have failed under the weight of injury costs. The case prompted the Labor Dept. to intervene in the case. In a letter to U.S. District Court Judge Stanley A. Weigel on Nov. 25, the department wrote that the ERISA statute was never intended to preempt plant statewide regulation of workers' compensation plans. Meanwhile, California Insurance Commissioner John Garamendi has warned state employers that companies "fraudulently marketed ERISA insurance policies as a substitute for workers' compensation insurance."

While the Stafcor case plays out, California struggles to rein in its exploding workers' comp program. Worried that sharply higher costs are forcing companies to flee California, Republican Governor Pete Wilson called a special session of the Democratic-controlled legislature two months ago in a last-ditch attempt to shave the program's costs.

Both sides agreed to launch a pilot program with five companies, allowing them to twin their health and workers' comp programs to save on administrative costs, à la the Stafcor model. Garamendi, a likely 1994 gubernatorial candidate, has proposed extending the program to every company in the state.

Until the political wrangling produces a compromise, however, California workers' comp travails will continue. On Nov. 30, Garamendi refused to allow a 12.6% premium increase for insurance companies writing workers' comp policies. That left the carriers with huge cost hikes and no new revenues to cover them. And it probably made the cutting loophole that Stafcor found even better to many of them.

By Ronald Grover in Los Angeles

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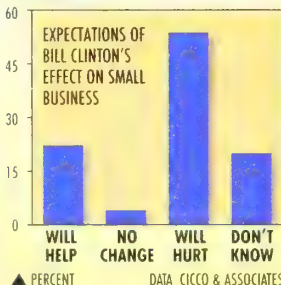
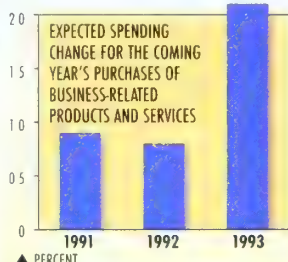
And to think, we created
Flex Control without
bending our principles.

BRAUN

EDITED BY HARRIS COLLINGWOOD

NERVOUS OPTIMISM

That's one way to summarize the way small-business owners feel about the coming year. According to the latest survey of 410 small-business owners by Cicco & Associates, a management consultant, small-business people plan to spend more on products and services in 1993, but they worry about the President-elect



L.A. GEAR STUMBLES ONCE AGAIN

► The hits just keep coming at L. A. Gear, the maker of athletic shoes. CEO Stanley Gold warned investors on Dec. 1 that the company expects a fourth-quarter loss of about \$30 million, contributing to a full-year deficit of \$80 million. Margins are still collapsing as Gold, whose Trefoil Investors is the largest shareholder, tries to sell off seemingly endless inventories.

SALOMON: THE SEC POINTS ITS FINGER

► The Securities & Exchange Commission appears to be sorting out the blame for the Salomon Brothers Treasury bond-rigging scandal. In its

settlement agreement, the SEC blames Salomon's ousted top management for failure to supervise their employees. John Gutfreund, Salomon's former CEO, must pay a \$100,000 fine and agree not to head any brokerage firm without SEC approval. Two other former top officers were hit with lesser penalties.

On Dec. 2, meanwhile, the SEC sued Paul Mozer and Thomas Murphy, the two former Salomon traders who allegedly placed the improper bids for Treasury securities. Mozer's lawyer calls the suit "pure nonsense." Murphy could not be reached for comment.

THE CENTEL-SPRINT DEAL LOOKS LIKE A GO

► Based on a preliminary count of the special Dec. 2 vote, Centel says its shareholders have approved the Chicago-based phone company's roughly \$3 billion merger with Sprint. The yes vote came despite a campaign against the deal by investors who felt the offer of 1.37 Sprint shares for each Centel share was too low. Assuming approval, the deal will be completed early next year.

A NEW SPIN ON THE TV DIAL

► Get ready for a 540-channel cable TV system. On Dec. 2, Tele-Communications Inc. an-

OUT TO LUNCH WITH ZSA ZSA

Apparently the *haut monde* of Hong Kong needs to think about something other than the impending changeover to Chinese rule. Richard Finny started the Sheraton Lunch Club in September and has already capped membership at 1,000. Finny, the hotel's director of promotions, is paying big bucks for celebrities to speak at hotel luncheons. The average speaker's fee runs about \$25,000, plus first-class airfare, a hotel suite, and more. The coming attraction: celebrity traffic-violator Zsa Zsa Gabor. And he's angling for Dudley Moore, Earvin "Magic" Johnson and naughty royal Sarah Ferguson, Duchess of York.

You may have noticed the absence of political types from the list. George Bush, who'll have a lot of free time come Jan. 20, could command \$50,000, says Finny, but not at the Sheraton. "They're all boring," he sniffs. "They're all boring." The idle rich aren't so very different from you and me.



nounced that it would buy equipment from AT&T, General Instrument, and other companies that will digitally squeeze about 15 movie channels, or about 5 live-action channels, or one high-definition TV channel into the space that's now occupied by one regular channel.

TCI, the biggest U.S. cable operator, says next summer it will begin offering compressed channels to subscribers who have satellite dishes. The system will be available to cable subscribers around January, 1994. Other operators are expected to buy the digital compression equipment as well. Of course, that still leaves the problem of what to watch.

THOSE \$2 BILLION FOOD LABELS

► On Dec. 2, President Bush settled a dispute between Agriculture and Health & Human Services Depts., allowing the Administration to unilaterally implement long-awaited food-labeling rules. Over Agriculture's objections, the rules require labels to specify how much food contributes to a daily recommended fat and sodium intake. They also set standard definitions for terms such as "light" and "low-fat" and require food companies to spend about \$2 billion redoing all labels by May, 1994.

AIDS AND BUSINESS: A PLAN FOR ACTION

► The Centers for Disease Control & Prevention announced on Dec. 1 that it is coordinating a new program known as Business Response to AIDS. The goal is first to sensitize executives, managers, and labor leaders and then get them to lead programs, develop written AIDS policies, and support prevention activities. No fewer than 1 in 4 U.S. businesses have AIDS programs



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DEMOCRATIC FRESHMEN DEMAND CONGRESSIONAL REFORM—SOMEDAY

They campaigned as reformers who would shake a corrupt Congress to its core. But now that they're in, the 63 new Democratic House members seem satisfied merely to represent the nation. "We, as freshmen, want to change this institution, but more than anything, we want to address the country's problems," says Representative-elect Sherrod Brown (D-Ohio). Adds Representative-elect Corrine Brown (D-Fla.): "The people's main concern is jobs, jobs, jobs." Democratic leaders haven't totally co-opted the new crop of lawmakers. But they've persuaded them to put their reform schemes on the back burner. The freshmen have been convinced that breaking the Washington gridlock must be a priority—and that will take cooperation with the leadership and the Clinton White House. Representative-elect Marjorie Markey (D-Pa.) says internal reforms can wait until Congress passes an investment tax credit, research and development incentives, and expanded individual retirement accounts. "We've got to pump the economy," she says. "We all want to get the ground running, but we don't want to be unreasonable."

PEER PRESSURE. It took some fancy footwork to get the new members to put aside their desire to slash perks, dump committee chairmen—perhaps even depose Speaker Thomas S. Foley (D-Wash.). Leaders came up with a divide-and-conquer strategy. First, they flew to three regional meetings with freshmen-to-be that gave leaders a chance to present their view of the nation's problems before the newcomers had a chance to plot their own course. And they discouraged the new troops from attending a planned bipartisan meeting of freshmen in Omaha. The gathering fizzled, with only 14 new members, all Republicans, showed up. To add pressure, leaders made an unprecedented offer to first-termers on every committee except Rules, which

has no vacancies. Few freshmen would sacrifice a seat on Ways & Means or Appropriations to make a run at the Speaker's perks and privileges.

To close the deal, the Democratic leadership promised to offer unspecified reforms in the future. And the freshmen, most of whom have served in elective office, responded to reminders that reforms forced by the rebellious class of 1974 are now widely believed to have made things worse. "You have to understand what the problems are before you can solve them," says Representative-elect Eddie Bernice Johnson (D-Tex.), a state senator.



FLORIDA'S BROWN: "JOBS" FIRST

GOP freshmen accuse their colleagues across the aisle of selling out. "They're caught between their campaign pledges and their leadership," notes Representative-elect James M. Talent (R-Mo.). "I'm not surprised at all." But Republicans haven't lost hope of some freshman solidarity. Representative-elect Tillie K. Fowler (R-Fla.), who worked with a Democratic majority on the Jacksonville city council, plans a bipartisan meeting of freshmen before Congress meets in January. "I'm hopeful we can have some coalition-building," she says, "but I'm realistic enough to know it won't be easy." The new Democrats say they will eventually return to their reform agenda. "Voters are plain and simple tired of the abuse of privilege in Washington,"

says Representative-elect Tim Holden (D-Pa.). "We must restore honesty and integrity to the people's House."

For now, though, the freshmen's willingness to defer reform and concentrate on Bill Clinton's economic agenda is a big break for the leadership. But unless voters are willing to give Congress a lot of credit for an improved economy by the next election, the first-termers may find it tough to explain why they were so quick to shelve their reform pledges.

By Richard S. Dunham

FITAL WRAPUP

CANDIDATES

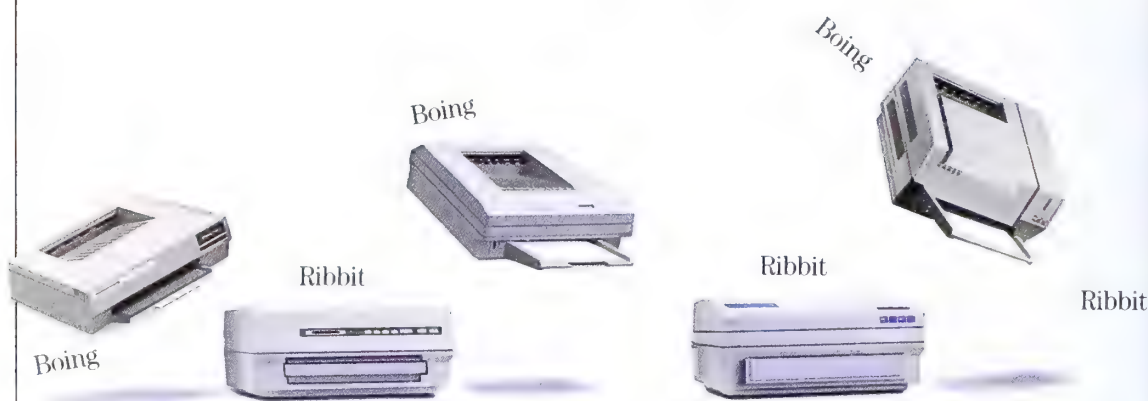
The unpleasant publicity about Senator Phil Gramm should die down. At the damage done by his contact with the savings and loan scandal will linger. The Texas Republican, a prime contender for the 1996 Presidential nomination, is smarting from reports that the owner of a failed Dallas S&L swallowed \$53,000 worth of construction costs for Gramm's vacation home in Maryland's Eastern shore. "He guaranteed himself four or five nasty paragraphs in every profile from now until 1996," says University of Virginia political scientist Larry Sabato. "The whole thing smells fishy."

Although Gramm denies wrongdoing, even a brush with the S&L mess is bad news for a Presidential contender. "Gramm has picked up the tar baby," says political scientist Alan Heslop of Claremont McKenna College. "More than even the congressional check-cashing scandal, the S&L scandal taps into the deepest vein of discontent in our politics today." Gramm may also find that the 1990 ruling by the Senate Ethics Committee that sanctioned his dealings with Dallas developer Jerry D. Stiles may be more curse than help. The private opinion, one of thousands issued by the panel, smacks of the self-dealing that has made voters so cynical about Capitol Hill insiders.

STAFFERS

Despite entreaties by Chairman Dan Rostenkowski (D-Ill.) and even President-elect Bill Clinton, the top staffer on the House Ways & Means Committee may be headed for the greener pastures of the private sector. Chief Counsel Robert J. Leonard is expected to form a lobbying partnership with Nicholas E. Calio, assistant to the President for legislative affairs in the Bush White House. Leonard, 46, has worked for the committee since 1974. No word yet on a replacement, but Ways & Means Tax Counsel Janice A. Mays could become the first woman to get the top staff post.

Other laser printers play leapfrog trying to catch up with the HP LaserJet.

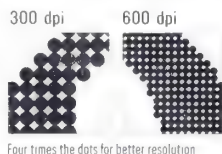


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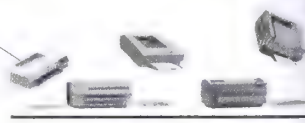
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LaserJet

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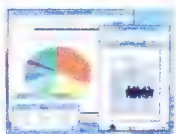
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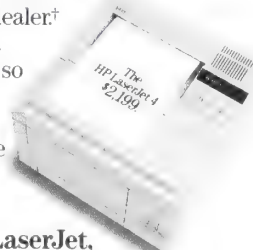
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ON GUARD, EUROPE

Japanese car plants with awesome capabilities are coming on line

In late November, John Cushnaghan, director of production at Nissan Motor Co. in Britain, was in Tokyo comparing notes with his Japanese colleagues. The meeting was interrupted by a news flash: For the first time, European journalists had given their car-of-the-year award to a Japanese model—Nissan's new British-made Micra, a \$10,000 subcompact. "This is a significant event for us," exults Cushnaghan.

In snagging the award, Nissan delivered a sobering blow to Europe's own auto makers. They had been counting on their reputations for quality to keep the Japanese onslaught at bay. But the shock delivered by Nissan's six-year-old plant may be the shape of things to come. Just as most of Europe's recession-battered producers are shedding thousands of workers, the Japanese are on a hiring and production binge there. Toyota and Honda are now joining Nissan with big new facilities, and the Europeans are clearly worried by the Japanese. "They will change the competitive balance," warns Bruce Blythe, Ford of Europe Inc.'s head of business strategy.

QUICK STUDIES. The battle in the world's largest car market will be fierce. The new plants are cranking up during an industry slump, with sales expected to fall 3.5% next year, according to a

McGraw-Hill. At the same time, the heavy investments—\$3 billion in Britain alone—put pressure on the Japanese to make big inroads against European competitors, who are getting more efficient.

Honda Motor Co.'s new plant started up in October, and come Dec. 16, when Toyota Motor Corp. opens a plant at Burneston in Yorkshire to produce the family-size Carina E, all three companies will be assembling cars in Brit-

ain. Consumer acceptance of Japanese cars is already high. Now, the Japanese companies are being strengthened by transplants that are free of quotas and 10% import duties. Each has also built a technical center in Europe to tailor models to local handling and styling tastes. Ominously for the Europeans, the Japanese are aiming at—and brashly expect to match—quality and output standards set by their parents back home.

Add it all up, and by 1995 the Japanese are likely to be producing 775,000 cars a year in Europe, 75% of them in Britain (chart). Even before then, Honda may increase its 20% stake in Rover Group if Rover's troubled parent, British Aerospace, bails out. By the end of the century, Japanese makers may account for 20% of the European market, up from 11.7% this year.

Whether Europeans will allow unpimped Japanese gains in an industry that accounts for 10% of the work force is an open question. Tokyo has agreed to freeze exports at 1.2 million per year until 1999. But transplant production is unlimited as long as the Japanese show "restraint" in selling to Italy and France, where tiny quotas on imports will end on Jan. 1. Brussels is now pressuring Tokyo to lower exports for 1993.



TOYOTA'S BRUSSELS DESIGN CENTER: TAILORING CARS FOR CONTINENTAL TASTES



A NISSAN MICRA
NEGOTIATES
NARROW
ENGLISH STREETS

Europe's carmakers are already fighting back with some big gains in productivity and technology. France's Renault is unabashedly copying such Japanese practices as factory-floor teams and production. The Japanese will take share away from Renault in the French, Italian, and Spanish markets, admits Philippe Gamba, Renault's marketing director, but he expects offsetting gains

in northern Europe. "I don't want to fear the Japanese as much as we did 10 years ago," he says. Taking lessons from the Japanese, Mazda Motor Corp. is knocking 20 months off the five years it once took to roll out new models. In October, the company informed suppliers it planned to do business the Japanese way, offering long-term deals in exchange for higher quality and lower costs.

None of this is lost on Japanese executives. They see key European po-



competition has always been high and is getting more severe," says Shoichi Miyake, president of Honda Motor Europe Ltd., from his brick office overlooking the River Thames in Reading. Honda's plans are more modest than those of its two rivals: It will produce 200,000 cars annually at its Swindon (Wiltshire) factory, beginning with the European-built Accord, priced at about £17,500. It is relying on its relationship with Rover, which builds 425,000 cars a year, to spread the costs of what would otherwise be uneconomic production. Honda will produce up to 200,000 cars annually by the year 2000, while Nissan will be turning out 350,000.

AL SITES. Fortunately for Europeans, Japanese aren't able to run flat in these days. Slow sales at home and the American market have hurt their profits, and that could crimp European sales in such areas as dealer incentives and advertising. "Our budget is tight," admits Hidenori Tsutsui, Toyota's European director of marketing and engineering.

What's more, hard times have kept Japanese suppliers from moving to Europe in the way they did to the U.S. This is forcing producers to use local

components. But the Japanese usually demand fast service and high quality. "They are doing more than the government to help British industry become competitive," says John M. Neil, CEO of Unipart Group Ltd. Neil, who won new contracts from Honda and Toyota, has embraced such Japanese practices as teamwork and job flexibility.

There may be no stopping the Japanese from setting formidable standards in Europe. Nissan workers are turning out cars in 18 hours, 7 hours faster than the next best—Ford plants in Germany and Belgium—says Daniel P. Jones, a professor at Cardiff Business School. Meanwhile, European dealers warm to the emphasis on quality and service guarantees. "These are Japanese concepts that make sense in other countries as well," says Alfonso Coppola, the largest Nissan dealer in Italy, who is now expanding his operation in Rome.

All three Japanese companies setting up in Europe are using proven formulas from Japan and America. They have se-

lected factory sites in rural areas, then hired a youthful work force with no experience in the industry. In the job-hungry north of England, Nissan received 33,000 applicants for 1,600 openings this year. The company is working with nearby schools to upgrade technical skills. To get ready for its plant opening, Toyota sent several hundred new employees to Japan and the U.S. for initiation. Although Toyota and Nissan are unionized, they have widespread job flexibility.

WHITE OVERALLS. Honda's Miyake admits that senior executives have been doubtful about producing Japanese-quality cars in Britain, just as they worried earlier about the U.S. Smiling, he says: "We've proved we can do it." Workers at Honda's 3-year-old engine plant, which has been supplying Rover and will soon be producing for its own Accord, have now hit output targets with virtually fault-free quality for nearly 300 straight shifts, boasts Andrew J. Jones, the plant manager. Like everyone else in the Honda factories and offices, he wears white overalls. To Jones, who spends as much as three hours a day on the shop floor, the key point of differentiation between auto companies in Europe will be the management—not technology or even products. "The critical thing in the '90s is people," he says.

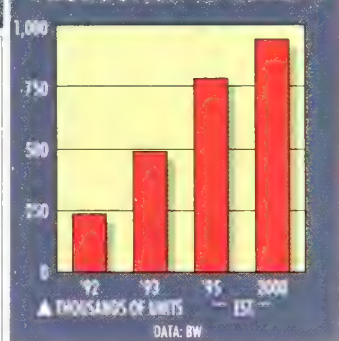
Of course, adapting to Britain has not been without its problems. Such Japanese-style work habits as hustling in and out of the lunch room at the jangle of a bell have put some recruits off. Developing team spirit is also a new experience. "There can be a problem getting people to communicate freely," says Al Cumming, the 33-year-old manager of Honda's car-inspection unit. "A lot of people aren't used to it."

European suppliers also have some way to go in satisfying the Japanese. Such companies as Britain's GKN and Lucas Industries and Germany's Robert Bosch are used to their high standards. But for others, it's a rude awakening. Recent studies point to big quality gaps and warn that unless the Europeans get their act together, Japanese suppliers will set up shop by mid-decade.

In the great European auto race, it's telling that managers at Japanese plants in Britain have set production and quality targets that match those in Japan. Europe's beleaguered carmakers might be wise to aim just as high.

By Richard A. Melcher in London, with Stewart Toy in Paris and bureau reports

JAPAN REVS UP ITS CAR PRODUCTION IN EUROPE





**CANNING AT KOOR: NEW PROFITS
WILL REPAY DEBT 10 YEARS EARLY**

ISRAEL

SUDDENLY, WHAT'S GOOD FOR BUSINESS IS GOOD FOR ISRAEL

Policy shifts and peace talks are boosting exports and luring investors

Just a couple of years ago, Koor Industries Ltd. was a sad reflection of Israel's sorry economy. With debt of \$1 billion, the cement-to-electronics conglomerate was on the edge of collapse. But like Israel's economy, Koor has undergone a remarkable turnaround recently. In late November, a slimmed-down Koor reported record quarterly profits. Things are going so well, says Benjamin D. Gaon, Koor's ebullient CEO, that a \$94 million debt repayment to Israeli banks will likely be completed by yearend—instead of 2003.

Suddenly, Israel's volatile economy is riding high. Part of the credit goes to the five-month-old, Labor-dominated government of Prime Minister Yitzhak Rabin. Ironically, for years, the Labor Party symbolized heavy regulation, big unions, and the welfare state. But now, Labor leaders are pushing business-oriented programs, including corporate tax cuts and stepped-up privatization.

JOB CRUNCH. An unemployment rate of over 11% remains a tough problem, however. Hundreds of thousands of former Soviet Jews have flooded the labor market over the past several years. So far, Rabin has avoided quick-fix solutions, such as make-work schemes. "For the first time, we have a government whose task is a real economic turnaround," says Koor's Gaon.

To be sure, part of Labor's success has been luck. Like Bill Clinton in the U.S., Rabin inherited an economy that was already beginning to pick up speed. And now, it's expanding at a substantial 6.5%. Meanwhile, inflation, the economy's traditional Achilles' heel, is below 10%—its lowest level in 20 years.

Israel's economy was bolstered by the opening of peace talks with the Arab states in October, 1991. Multinationals that had shied away from Israel for fear of the Arab world's 45-year-old economic boycott are now knocking at the door. In recent months, such Japanese carmakers as Toyota Motor Corp. and Nissan Motor Co. have set up their first Israeli distributorships. Pepsi-Cola International, traditionally a major player in Arab countries, entered the Israeli market last April. Other newcomers include McDonald's Corp. and food giant CPC International Inc.

And thanks to the Bank of Israel's policy shift in late 1991 to gradually devalue the shekel, exports are up by almost 10% so far this year. That export boom will continue into 1993, industrial-

ists say. "Exports really starting to re- the whole economy," says Eitan Sheshinsky, economist brought in head Hevrat Haovo, which administers multibillion-dollar industrial and financial holdings of Israel's trade union federation, the Histadrut. The result: a hike in corporate profits.

EAGER BUYERS. And in the high-tech sector, Israeli companies that have gone public in the U.S., such as Scitex, ECI Telecommunications, and Lannet Data Communications, are now among Wall Street's stellar performers. Shalev in Tadiran Ltd., Koor's \$800 million electronics subsidiary, have dou-

bled in value since they were floated last year on the New York Stock Exchange. Here at home, the Tel Aviv Stock Exchange is up by over 70% this year (chart).

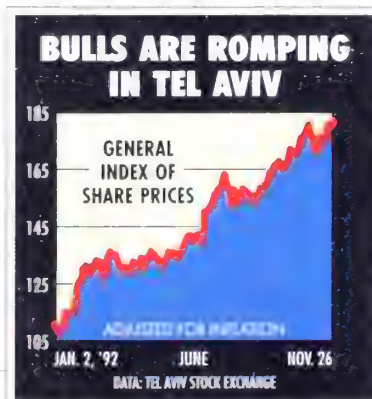
The stock market surge, in turn, makes privatization easier. In November, the Israeli government easily sold its \$200 million stake in Israel Discount Bank Ltd., one of the country's largest. Next year, Jerusalem is looking at possible sell-offs of El Al and stakes in Bank Leumi and Bank Hapoalim, which together dominate Israeli finance.

Of course, setbacks could occur. Rabin's government is under increasing pressure to get some concrete results from the sputtering peace negotiations with the Palestinians and the Arab states. Jerusalem's recent offer to turn parts of the Golan Heights to Syria both angered many Israelis and failed to win a peace deal from Syrian President Hafez al-Assad.

But economics will likely be the underpinning of any future peace agreement. Forming a regional market among Israel, Jordan, and the 1.8 million Palestinians of the occupied West Bank and Gaza Strip is essential for peace to last. "The first step toward Palestinian au-

thority will be an economic step, and we want to be involved," says Koor's Gaon. The group is already studying potential Palestinian partnership. With a little luck, Israel's current business boom could help more than just Israel.

By John Rossant
Rome and Neal San-
in Jerusalem



HOW IS THE SUMMIT OF THE EC'S DISCONTENT

In the European Community's grand design for a New Europe, 1992 was supposed to be a landmark year. But it's turning out to be the wrong kind of landmark. Instead of being a high point, "1992 may be remembered as the year when European convergence came to an end, and divergence started," says Michael Hughes, European strategist at London investment house Barclays de Zoete Wedd.

What means the upcoming EC summit in Edinburgh on Dec. 10 is going to be a different sort of affair than its organizers originally thought. Rather than popping champagne corks for the single market, European leaders will have to pull out all the stops just to salvage the decades-long drive toward unity. Unless they come up with ways to spur a return to cooperation, 1993 will see even more turmoil than this year. Debates over everything from oilseeds to immigration will be pulling the community apart.

More than just parol disputes are at stake. A politically distant Europe may be incapable of coping with the disarray that has been growing on its eastern flank. If so, Germany, already inundated with refugees from the East, could find it more tempting to break free of the EC and pursue other cold-war interests.

The summit was supposed to toast the Maastricht Treaty on monetary and political union as the centerpiece of the New Europe. But the treaty is now on life support. Not only did its authors push for more and faster unity than constituents wanted, but the ambitious goals, calling for a single currency run by a European central bank, now seem far-fetched in a fractious EC.

DE GRACE. Just look at France's recent behavior. Paris has been a key backer of European union, but now it is using its clout to lobby other EC members to block the mid-November coal farm-trade accord that was negotiated between Washington and Brussels. Britain has also been divisive. It has postponed ratifying Maastricht and used its current presidency of the EC to obstruct a new community budget. As for Germany, the Bundesbank's high interest rates have driven the British pound and the Italian lira out of the European exchange-rate mechanism (ERM). Bundesbank President Helmut Schlesinger's recent charges that the ERM provides "a power-incentive" for speculators could prove a death sentence for Europe's already beleaguered monetary system.

The Germans are taking a hard look at their EC obligations. They wonder why they should subsidize such weaklings as Greece, Spain, and Portugal when their real interests lie in finding off a meltdown in Eastern Europe and the former So-

viet Union. There's a risk they could start cutting their EC subsidies and shifting cash eastward.

To see the direction Europe is heading, one need look no further than the currency markets, where every week brings a new crisis. Money mavens are already adjusting to the changes. Just a few months ago, securities denominated in European Currency Units—seen as Europe's future single currency—were red-hot. Now, no one wants them. The London futures-and-options exchange recently abandoned a key 10-year ECU bond contract. And big ECU players, such as France's Banque Paribas, are reallocating staff from ECU operations to beefed-up currency-trading offices in Frankfurt, New York, and Tokyo.

If there is a new European monetary order, it may not be the 12-country union outlined by Maastricht. It is more likely to be a grouping centered on the German mark, which will include non-EC members with strong currencies, such as Switzerland and Austria.

TICKING CLOCK. Businesses can live without ECUs, but executives are watching closely for any rollback of the single market, scheduled to go into effect on Jan. 1. So far, with 78% of the single-market reforms implemented, it looks as if the scheme is safe. But even some Euroboosters worry that the current discord could affect the promised efficiencies and benefits for consumers. A check in the



AN EC FLAG AFLAME IN FRANCE: DISCORD THREATENS SINGLE-MARKET ACCORDS

momentum, says EC competition czar Sir Leon Brittan, would create "a rather sour atmosphere, in which some members might drag their feet on implementation" of remaining single-market reforms.

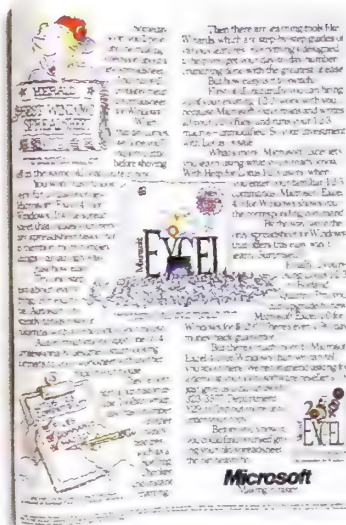
To get the EC back on track, leaders at Edinburgh must at least find a compromise that lets Denmark, whose voters rejected Maastricht in June, back into the fold. If the EC can thread that needle, both Denmark and Britain may complete the ratification process by midyear. Only then can the EC avoid a catastrophic halt to talks on enlarging the community to include Austria, Sweden, and other countries.

But the EC faces a ticking clock and some bad timing. Spoiler Denmark is slated to take over the rotating community presidency for six months on Jan. 1. Then come Belgium and Greece, two of the weakest members. So the community won't have a president who can hammer out solutions to intractable problems. And even if some form of Maastricht is finally ratified, the reconfiguration of Europe taking place may make large parts of the treaty irrelevant. Unfortunately, Europe seems in anything but the right mood to come up with a better-suited substitute.

By Bill Javetski in Paris, with Patrick Oster in Brussels

Hype.

Saying bon voyage to
your old spreadsheet is
easier than you think.



Facts.

The Microsoft ad on the left has a lot to say about their spreadsheet, Microsoft® Excel. It also has a lot to say about spreadsheets, 1-2-3®. But before you believe their ad, let's see the fact from hype.

The truth is, Microsoft isn't giving you all the facts.

Microsoft claims that Excel will read and write all Lotus® 1-2-3 spreadsheet files and run your 1-2-3 spreadsheets unmodified.

Not true. Excel can't preserve 1-2-3 DOS formulas containing a 3D formula. It can't convert a number of WK3 files to Workbooks. It can't run 1-2-3 macros containing commands from spreadsheets dating back to Release 2.01.

More hype? Their ad also tells you that a 1-2-3 user need not use a 1-2-3 command and Excel will show the equivalent command.

The fact is, 1-2-3 for Windows offers the best transition from 1-2-3 for DOS.

And complete compatibility.

If you're a 1-2-3 user, you've probably created and saved hundreds of 1-2-3 files, styles and macros. Face it, you'll certainly use them unmodified. Well, with 1-2-3 for Windows,™ it's true. Because only 1-2-3 for Windows is able to read and run every 1-2-3 for DOS file, style and macro. And only 1-2-3 for Windows—with its built-in Classic® Menu—lets you use your familiar 1-2-3 commands. That's more, only 1-2-3's 3D technology gives you easy access to 256 worksheets and lets you build true 3D formulas. In comparison, Excel's Workbook is a limited imitation of 3D. Try opening a large 1-2-3 3D file in Excel and see what happens. It might work. It might not.

Now ask yourself, why would a 1-2-3 for DOS user looking for the easiest way to move to Windows choose anything but 1-2-3 for Windows?

The fact is, the new 1-2-3 for Windows includes the most asked-for improvements.

The new release of 1-2-3 for Windows includes performance enhancements. For example, it's now the fastest Windows spreadsheet for printing on PostScript® printers. We've also added over 25 innovative new features, usability enhancements and programming tools.

The result?

1-2-3 for Windows is now one of the most powerful and easy-to-use spreadsheets ever developed.

Unmatched database capabilities in a spreadsheet.

If you're a spreadsheet user who needs to access external databases, 1-2-3 for Windows remains unmatched—particularly if you need relational capabilities. Excel's data access capabilities, on the other hand, rest on a third-party product that offers limited relational capabilities. Which explains why *Corporate Computing* (August 1992) recently wrote that "for the experienced 1-2-3 database user, 1-2-3 for Windows with DataLens® is the front-end tool of choice."

Join millions of spreadsheet users who prefer Lotus.

Not only do more people prefer our product, but according to the ComputerWorld Spreadsheet Brand Preference Study, more people prefer our company. In fact, Lotus beat everybody (including Microsoft) for the awards of "best company to do business with" and the "company that offers the best service and support."

For more information, visit your Lotus Authorized Reseller or call us today for your free demo disk at **1-800-TRADEUP, ext. 7220.***

After all, it only makes sense to base your spreadsheet decision on facts rather than hype.

Lotus 1-2-3 for Windows

DICK WURTMAN'S IDEAS AREN'T SO CRAZY AFTER ALL

The MIT prof's unconventional company is hitting pay dirt

The brain's intricate chemistry has obsessed Dr. Richard J. Wurtman for nearly 25 years. A neuroscience professor at Massachusetts Institute of Technology, he is an expert on how nutrition affects the brain. His research into such areas as obesity, sleep, and Alzheimer's disease has yielded some 70 patents. But in 1989, when Wurtman helped found Interneuron Pharmaceutical Inc. in Lexington, Mass., Wall Street balked. The reason: The company's first products were a dubious sports drink and a weight-loss drug. "I always thought they were a bunch of flakes," says Oppenheimer & Co. analyst Jeffrey Casdin.

Not anymore. In November, fruit-juice maker Very-fine Products Inc. agreed to mass-market the sports drink that Wurtman claims enhances athletic performance. And chemical giant American Cyanamid Co. will co-market the prescription-only diet drug that is sold in 40 countries outside the U.S. Cyanamid will also help fund studies needed for the drug to get Food & Drug Administration approval. In response to these deals, investors have pushed up Interneuron's shares 25%, to 9% from 7%. Wurtman's 5% stake in the company, which he and his family share, is now worth about \$10 million.

VINDICATION. Interneuron's stock is up for other reasons as well. Royalties from its first two products will finance its primary mission: developing treatments for Alzheimer's and other brain disorders such as Parkinson's disease and stroke. Between Wurtman's booty of patents and research licensed by Interneuron, the company's pipeline is full.

This is sweet vindication for Wurtman, 56, who has always been slightly outside the mainstream. As a philosophy major at the University of Pennsylvania, he became intrigued by the relationship between the body and the mind. That influenced his decision to go

to Harvard Medical School, where he concentrated on brain research instead of clinical medicine. Wurtman became an associate professor at MIT at age 31 and a full professor three years later. There, he maintains a torrid pace, overseeing 35 scientists in his lab, managing the school's clinical research center, which treats hundreds of patients a year, and consulting with six companies.

None of Wurtman's inventions has hit pay dirt in the U.S. But his weight-loss

ported a key discovery: They found a deficiency of acetylcholine, a brain transmitter, may contribute to the formation of the hard, plaque-like deposits in the brains of Alzheimer's patients. Harvard University's Dennis Selkoe, a leading Alzheimer's researcher, says "The discovery is a very important development," although it still must be confirmed. Since CDC-choline increases the acetylcholine levels in the brain, Wurtman believes it could help slow the debilitating effects of Alzheimer's.

SOMETHING FISHY. While such science percolates in Interneuron's lab, the company may have a tough job convincing skeptics that its first product will sell. For one thing, analysts think the diet pill may linger at the FDA because new weight-loss drugs are not a top priority of the agency, says Casdin.

The sports drink, which Very-fine plans to launch some time next year, faces a tough fight against market-leader Gatorade, will



With its sports drink ready for the mass market and its weight-loss drug being sold abroad, Interneuron is concentrating on an Alzheimer's breakthrough

drug, which works by interrupting the brain transmitter associated with carbohydrate cravings, is marketed overseas by French pharmaceutical giant Les Laboratoires Servier. Called Isomeride, its sales in France alone will hit \$100 million this year. Wurtman and MIT split the royalties, which an MIT spokeswoman said are in the "high six figures."

Wurtman's—and Interneuron's—next big break may come from an obscure drug now approved for use only in Spain. Called CDC-choline, the compound is used to enhance the memory of stroke or head-trauma victims. But a variation on the drug could be a boon for Alzheimer's patients.

In October, Wurtman and colleagues at Massachusetts General Hospital re-

sent a marketing challenge. The drug's active ingredient, choline, a natural substance not to be confused with CDC-choline, stimulates the production of a brain transmitter that helps muscles move. In one test, 10 runners who drank the concoction improved their 20-mile time by some five minutes. One unexpected effect: The athlete who consumed six ounces or more of the drink a day gave off a rotting-fish smell.

Wurtman just shrugs when asked about the drink's doubters. "What do you say? It should work," he says. But if consumers decide it doesn't, Wurtman isn't concerned about Interneuron's future. After all, there are plenty more inventions where that one came from.

By Geoffrey Smith in Boston

If you're looking
for a computer
that will grow
with your needs,
there are basically
only two ways
you can go.

The hard way.

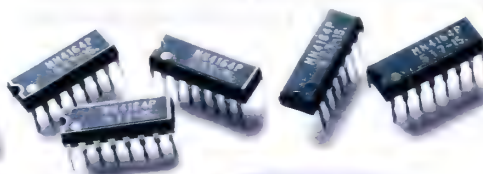


Add Windows, buy a new PC.

Add networking card, reconfigure your system.



Upgrade four memory, reconfigure your system.
(Note: not a full reformat and install of Windows.)



Add almost anything, reconfigure your system.



Buy a mouse, reconfigure your system.



Play and record sounds, reconfigure your system.

Install a new hard drive.



Transfer old data to new.

Call for help, write a check.
(Note: not a full reformat and install of Windows.)



Add peripherals, reconfigure your system for each one.

Add printer, adjust DIP switches, ...



Extra Strength!

Aspirin Tablets



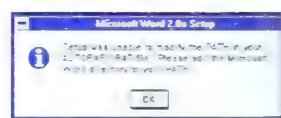
500 Tablets

Expand your PC, take two aspirin.

Change monitors, reconfigure your system.



Buy a new monitor.



Whoops!

Reinstall system, with loss of hard drive and data.



Manual labor.

reformat, install, spend time, more use

...many people have found a simple method to reconfigure a computer to add peripherals, expand memory, and provide even more power to reconfigure your system—the only sure thing is that it's a lot easier than what you're doing now. You don't have to install complex COMMANDS and SYSTEMS links to spread the windows and make it work. And, of course, adding a new hard drive is extremely difficult—what with install

The easy way.



Macintosh has built-in software to make it easy to add a hard drive, CD-ROM drive, scanner, or other peripheral. And it's easy to add an Ethernet or Token Ring card or other cards that allow you to customize a Mac for high-performance or specialized tasks.

and networking software. An Apple Macintosh, on the other hand, knows when you've added a hard drive. Installing a CD-ROM or scanner is a matter of plugging in a cable and clicking a couple of buttons. Even installing a network requires nothing more than plugging one Mac into another. It's just one more example of how a Macintosh works in a simple, logical way. So you can, too.



If you know how to
use a plug, you know how to
expand a Macintosh.



AN THIS MAN ANSWER ECONOMICS' PRIME QUESTION?

ul Romer may have the key to understanding long-term growth

is is not a household name, nor is it likely to become one. He isn't headed for a job in the Clinton administration. But economist Paul M. Romer is quietly influential all the same, and his ideas may yet make their way into Washington in some form. For 10 years, Romer has concentrated on the most basic and perhaps most important questions in economics: How does long-term growth occur? What sustains growth? His answers, focusing on the

cies or organizational structure. Numerous economists are looking at these issues, but few approach them from the vantage of Romer's deep understanding and theoretical training. Now at the University of California at Berkeley, Romer, 37, is trying to bridge the chasm between ivory tower and real world. That's risky in a profession in which technical virtuosity is prized well above practical thinking. But Romer has shown willingness to challenge convention.

with elegant modeling techniques shunned growth theory as a dead end. But Romer was intrigued by it, and in his doctoral work at the University of Chicago he found a way to incorporate technological change into a new model. In his work, technology's contribution to growth became susceptible to both measurement and manipulation. "Romer showed that you can explain growth without appealing to a *deus ex machina* of technological change, and that was terrifically liberating," says Paul R. Krugman, an MIT economist whose work in trade theory paralleled Romer's.

Romer was not alone in his line of inquiry—his Chicago adviser Robert E. Lucas Jr. was looking at some of these issues when Romer was doing his research. And Romer is not without his critics, though even they are quick to commend his intellect. Harvard University economist N. Gregory Mankiw argues that traditional variables of growth,



ROMER ADVOCATES GOVERNMENT ACTION TO COMPEL CITIZENS TO SAVE

played by technology and innovation, have been so compelling that you've provoked a tide of new economic research. They also are having a wider influence. "Romer has unlocked a whole new way of thinking about growth," says Harvard business school professor Michael E. Porter, who says he found inspiration in Romer's work. He undertook his own extensive comparison of companies and industries in *Competitive Advantage of Nations*. That new way of thinking encompassing looking at how an array of institutions—from governments to corporations to universities—help or hinder innovation and growth through explicit poli-

His major contribution to economics was simple but profound. The neoclassical growth model, as constructed by Nobel prize-winner Robert M. Solow of Massachusetts Institute of Technology, recognized technological change to be the biggest contributor to long-term growth. But Solow's highly influential model viewed technology's contribution as incalculable except as a "residual" after accounting for changes in labor and capital. Technological change could neither be directly measured nor, for that matter, manipulated by changes in economic policy.

In the 1970s and early 1980s, young economists eager to make their mark

such as investment, have far greater explanatory power than Romer's work suggests. Others say Romer's work simply codifies in a model the technological innovation, monopolist pricing, and increasing returns that have long been anecdotally familiar to economists.

SUDDEN SHIFT. Romer's intellectual and career history have traced an interesting path. He grew up in a Democratic household—his father is Governor Roy Romer of Colorado—but became a registered Republican when he imbibed the University of Chicago's free-market thinking. (He voted for Clinton, though.) Romer's undergraduate training was in mathematics and theoretical physics, but

A SELECTION OF ROMER'S VIEWS

ON GROWTH Ideas and discoveries are the critical engines of economic growth

ON SPURRING INNOVATION Establishing the appropriate patent and copyright protection is important. For instance, software companies may deserve monopolist-like profits to compensate for the cost of innovation, while medical researchers should not be allowed to profit by patenting gene fragments

ON GOVERNMENT'S ROLE Growth may be impeded or enhanced by what government does. So policies must be fashioned with care and be market-oriented to provide incentives

ON VALUES Government may be able to reinforce values such as thrift by designing new savings incentives

DATA BW

he abruptly switched gears to economics.

Romer did most of his theoretical work at Chicago. Yet one pillar of his growth model—that long-run growth is marked by imperfect competition—defied a long-held Chicago assumption that markets produce efficient outcomes. After teaching at the University of Rochester, he went on to land a coveted full professorship at Chicago in 1988. But he quit two years later to accompany his wife to California, where she took a promising job in medical research.

Long immersed in theory, Romer is now exploring how to promote growth. First, he says, the appropriate patent and copyright protections should be established. But since some innovations are costly to develop and may have benefits that extend well beyond the innovator, government could give the process a nudge. One way would be to allow companies to act collectively and raise research and training funds through a voluntary tax, then decide among themselves how to earmark those funds. There are some precedents for this approach, but it has not been widely tried.

SAVINGS PLAN. Romer is also tackling the question of how to spur savings. His father, chairman of the National Governors' Assn., asked for his input in advance of a mid-December NGA meeting on deficit reduction. Romer, who is interested in how values and economic behavior interact and affect growth, took the bait and came up with two ideas.

First, Romer proposes a forced savings plan whereby taxpayers would put a portion of total income into a registered savings account. If a taxpayer failed to do so, the government could require that the money be withheld and the proceeds put in U.S. savings bonds. He also proposes a payroll savings plan for young workers that the government would match dollar for dollar and finance through higher excise taxes.

So far, Romer's ideas for promoting innovation and boosting savings haven't gotten much play, even within economics. That's partly because Romer himself is treading cautiously, well aware that many economists have foundered in designing policy. Even if his work goes no further, though, Romer is assured of lasting recognition for his work in growth theory. He is already a rumored candidate for the prestigious John Bates Clark medal, awarded every other year by the American Economic Assn. to an economist under age 40 deemed to have made a significant contribution. But if Romer succeeds in marrying his theoretical work with practical prescriptions for growth, he has a chance at a far bigger prize: returning economics to its roots and guiding it toward a new political economy for the 1990s and beyond.

By Karen Pennar in New York

The Corporation

STRATEGIES

MARTIN'S PLANS
INCLUDE KIOSKS AND
VENDING MACHINES



INDIGESTION AT TACO BELL

Franchisees are rebelling against headquarters' expansion plans

Kenny King is seeing red. For 10 years, King was a loyal franchisee of Taco Bell Worldwide, operating 51 restaurants in Arkansas, Missouri, Oklahoma, and Texas. But last year, without telling him, Taco Bell opened a store on the campus of Henderson State University in Arkadelphia, Ark., not far from one of King's operations. Before long, King's worst fears were realized: Annual sales at his Arkadelphia outlet were down by \$75,000, to \$575,000. "They've talked about closing [the other outlet], but they haven't given me any real indication," he says. "I'm pessimistic about the future."

King isn't the only one. Pushing into airports, stadiums, and convenience stores across the country, the Irvine (Calif.) fast-food chain has expanded its

network by more than 37% over the past five years, to roughly 3,700 outlets. But while the growth has boosted corporate sales and profits, many of the 320 franchisees complain that the glut is contributing to a slowdown in sales growth at individual outlets, compounding the effects of a weak economy (charts). Many of the franchise operators also fear they will be gradually replaced by company-owned and operator stores. While the number of franchise restaurants has risen since 1987 by only 15%, to 1,400, company-owned stores have soared almost 56%, to 2,300.

The fracas at Taco Bell is far from an isolated incident. Franchisees at K Corp., another unit of PepsiCo Inc., are complaining about similar encroachment on their turf. Burger King is defend-

against three separate lawsuits by franchise operators over the same issue. And in Iowa, the legislature responded to franchisee outrage by passing a law banning any new fast-food outlet within three miles of an existing franchise from the same system or in a population radius of at least 100,000. "You have the beginning of a grassroots movement," says Jack Hadfield, president of Franchise Analysis Inc., a market-research firm.

Still, the battle at Taco Bell has gotten a lot of attention, largely because of the aggressive growth strategy pursued by CEO John E. Martin. Martin, now 47, was hired by PepsiCo in 1983 to revitalize Taco Bell. At the time, the Atlanta-based franchise had a reputation as a hard-pressed, underperforming fast-food chain, earning his fast-food stripes as president of Burger King Corp.'s overseas

operations in the late 1970s, before leading a turnaround at Burger King Systems Inc., a money-losing chain ousted by rival General Foods Corp.

Martin's plans to improve Taco Bell sales often met with resistance from franchisees. The first clash came in 1983, when Martin raised the royalties due from franchisees to pay for increased advertising.

Franchisees now hand over 10% of their sales to Taco Bell, compared with 8% in the early 1980s. Then in 1988, many franchise operators howled when Martin introduced a concept known as "value pricing." He told Taco Bell stores to roll back prices. Tacos that once cost 79¢ were reduced to 59¢. Taco Bell's total sales soared almost 76% from 1988 to 1991, to \$2 billion. But in many cases, store owners complained that the new pricing wasn't increasing sales much as hurting profits.

SSION. Still, the greatest backlash against franchisees has come in response to Martin's current growth strategy. The company is aimed at making the Mexican operation as ubiquitous as the Goldilocks. Besides adding conventional outlets, Martin is designing new outlets that are less expensive to build and operate. Last year, he introduced Taco Bell Express, with a limited menu and no seating in outlets similar to concession stands. Over the summer, he rolled out drive-through carts. Martin is now exploring the possibility of using vending machines. Altogether, he is hoping for 100 distribution points by 2001.

Martin also wants the company to open as many new stores as possible.

Not only would that enable him to claim a greater share of the chain's profits, but it would also give Martin tighter control over the retail network. Roughly one-third of franchisees still aren't participating completely in Taco Bell's value-pricing scheme, according to the International Association of Taco Bell Franchisees, which has 280 members. The company says the varied pricing from store to store confuses customers and dilutes the value of its nationwide ad campaign. "If you don't believe in the structure," Martin says, "we certainly don't want to expand with you."

Franchisees say Martin is so obsessed with growth that he doesn't care how expansion affects existing stores. Ron Bellamy, a Texas operator and president of the franchisee association, says King's experience isn't unique. He says his

So Taco Bell's franchisees are fighting back. In March, the franchisee association showed its muscle by negotiating a contract to purchase food and packaging from an outside supplier rather than deal with Pepsi Food Systems, a PepsiCo subsidiary. One franchisee has even filed suit against Taco Bell. Richard Cohn, the owner of nine Taco Bells in the Chicago suburbs and a frequent critic of Martin, alleges that Taco Bell plans to build a company-owned store near his most profitable restaurant, in an attempt to coerce him into selling out to the company. Taco Bell has denied all charges.

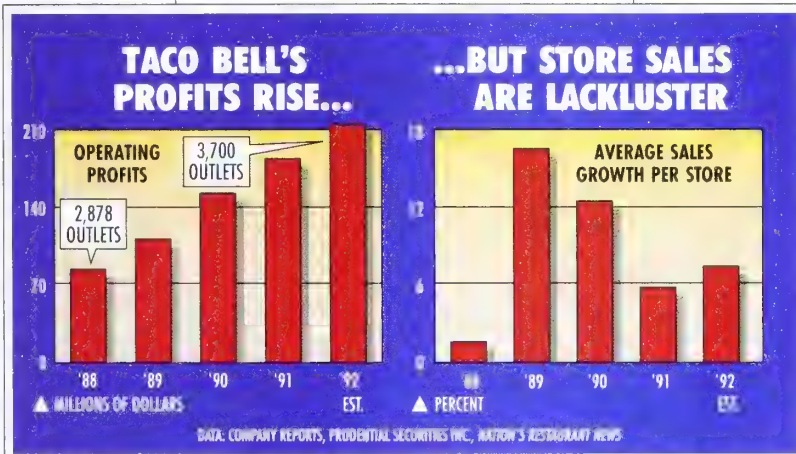
BENIGN CANNIBALS? Martin insists the squabbles arise from resistance to change. "Sometimes you have to lead people kicking and screaming to the right answer," he says. Martin contends

that the fast-food business depends so much on casual passersby that new stores don't necessarily hurt existing ones, especially in crowded metropolitan areas. Moreover, he says, a recent internal study shows that, so far in 1992, franchisees have complained of potential damage from the company's expansion plans in only 13 instances. He declines to give any other details.

Even so, Martin felt recently that he needed to reassure the troops. In an October speech at the annual franchisee gathering in San Antonio, he told the crowd: "Yes, you are wanted!" He invited existing franchisees to participate in the development of carts and kiosks. Martin also has shown some flexibility in expansion plans. When John Antonaccio, who has a franchise in Piscataway, N.J., objected to Taco Bell's plans for a new outlet just two miles away, the company canceled the project. "I felt very threatened a year ago," Antonaccio says. "But I am willing to continue to give the company a chance to keep doing what they've been doing lately."

Other franchisees aren't as charitable. Many are already looking askance at the Hot 'n Now hamburger chain, which Martin bought in 1991. Franchisees say the chain is aimed at the same low-price market as Taco Bell. For its part, Taco Bell denies any competitive threat, insisting that hamburgers and tacos are two different markets. Still, if Martin starts selling hamburgers as aggressively as he has tacos, he's sure to keep causing Kenny King and other franchisees plenty of indigestion.

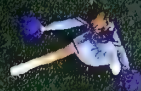
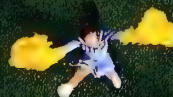
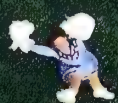
By Amy Barrett in Los Angeles



group has documented almost 70 cases where corporate expansion plans have threatened to steal business from established franchisees. "They have become overzealous and selfish at grasping at opportunity," Bellamy charges.

Unfortunately, franchisees' contracts with Taco Bell give them little room to maneuver. As in most such agreements, store owners have exclusive rights only at their own restaurants. Taco Bell may put up another restaurant or may wheel in a cart around the corner or down the street. Moreover, Taco Bell isn't required to do any market-impact studies on existing outlets before opening a new one. "Years ago, they needed us," grumbles one California franchisee, who declines to be identified. "We moved across the country and invested millions. Now, they don't need us."

One franchisee, a critic of Martin, says Taco Bell plans to build an outlet near his store to force him to sell out





INVOLVES.

Wherever Hitachi is located, we work at being a committed part of the community. That's because we believe the purpose of technology is not simply to make clever products. It is also to discover, to nurture and to be involved in order to achieve a basic goal: A better world for succeeding generations. This is the operating philosophy behind the 20,000 different products made by our 500 manufacturing companies around the world. It has been our commitment for the past 80 years. And even more important, it is our definition of the future.

HITACHI

CAN LABATT SHED ITS BELLY BUT KEEP THE BEER?

The Canadian brewer is dropping food and dairy units

George S. Taylor, the chief executive officer of John Labatt Ltd., isn't much different from other corporate chiefs who want bigger profits. It's the way he's going about achieving that goal that sets him apart. Instead of expanding, Taylor is selling off businesses. And rather than finding new avenues for growth, he wants the Toronto-based brewer to go back to its roots in the beer business—even though Canadian beer consumption has been falling for five straight years.

That may sound like an ill-advised—if not downright risky—strategy, but Taylor, 52, says slimming down is the best way to “bring value to shareholders.” And pleasing shareholders isn't just a management platitude at Labatt these days. Roughly 38% of Labatt's stock is owned by Canada's powerful Bronfman family through its holding company, Brascan Ltd. Many analysts believe the family patriarchs, Peter and Edward, want bigger returns from Labatt to help bail them out of their financial woes. The Bronfman empire, with interests ranging from mining to banking, is under mounting strain because of some poor investments, notably in real estate.

SPRUCING UP. The Bronfmans have already profited from Labatt's downsizing. Brascan received \$80 million in October as part of a special shareholder dividend after Labatt sold off many of its food businesses. And future asset sales will further enrich the family's coffers. Analysts in the U.S. and Canada are even speculating that Labatt's slenderizing is part of a broader plan to make Labatt more appealing and eventually allow the Bronfmans to sell their shares. “They need the money, and Labatt is a very good asset,” says analyst Jacques Kavafian of Levesque Beaubien Geoffrion Inc., a Montreal securities firm.

Like the Bronfmans, Labatt's fortunes have changed since the 1980s, when for-

mer CEO Peter N. Widdrington transformed Labatt into a consumer-product giant. He gobbled up some three-dozen companies, primarily food and dairy businesses. At one point, Labatt sold everything from yogurt to pizza, in addition to beer. In 1984, he launched The Sports Network (TSN), now the biggest cable sports channel in Canada. The aim was to expand Labatt's entertainment

cided in 1989 to focus on fewer businesses. In addition to selling off its companies, Labatt is preparing to off to shareholders next year its U.S. and Canadian dairy business, which accounts for half the company's revenue. Labatt is even thinking of selling off to 49% of its entertainment division.

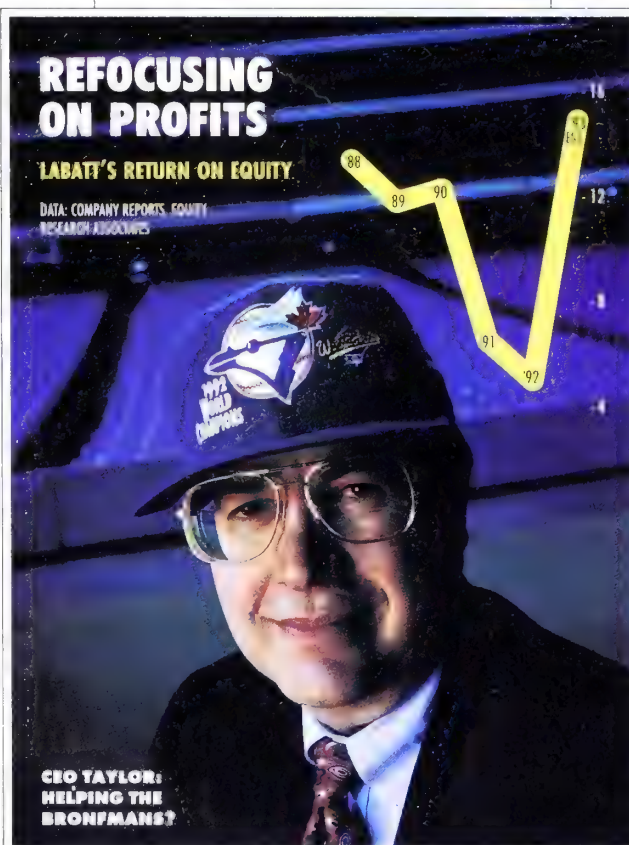
To help compensate for lost revenue, Taylor, who was Labatt's No. 2 executive before being promoted to CEO last September, is pushing to make Labatt's brewing operation far more efficient and profitable. He vows to cut production costs by 20% within two years, largely by closing as many as 3 of Labatt's breweries. Taylor also expects continued market gains from Latrobe Brewing Co., which Labatt purchased in 1991. Volume sales of the U.S. brewer's leading Rock brand rose 15% last year.

BUSCH BID? Labatt's strategic about-face will help in the near term. Michael Palmer, president of Toronto-based Equity Research Associates, which tracks stocks for institutional investors, projects that Labatt's operating profits will climb 20%, to \$100 million, in the current fiscal year, before the dairy business is spun off. He expects revenues to rise by only 2%, to \$1.5 billion. Longer-term is another matter. Not only is the Canadian beer market contracting because of stiff taxes and retail prices, but analysts believe that U.S. brewers, notably Stroh Brewery Co. and Heilemann Brewing Co., will win a bigger market share.

In the face of such possibilities, some Labatt watchers are betting the Bronfmans will sell out before too long. The market value of their shares is roughly \$800 million. Analysts believe one possible buyer might be Anheuser-Busch, which markets its beer in Canada through Labatt.

Still, a deal doesn't look imminent. Taylor insists there are no plans to sell Labatt. Brascan Chairman J. Trevor Edwards denies that the Bronfmans want to sell. And Peter M. Flannigan, an investment banker at Dillon Read & Co. and member of Busch's board, says: “I have no offering document.” But unless Labatt's CEO can squeeze even more profit from Canada's shrinking beer market, the market's debate over Labatt's future—and questions about Taylor's strategy—are bound to continue.

By William C. Symonds in Toronto with Julia Flynn in Chicago



division, which then consisted of a 45% stake in the Toronto Blue Jays. Labatt now owns 90% of the world champions.

Unfortunately, Labatt's food and dairy acquisitions weren't world class. Many had scanty market shares, and Labatt didn't have the capital to make them grow. The drawbacks to expansion soon became clear. From 1986 to 1989, annual sales soared 50%, to a record \$4.3 billion. But profits grew more slowly, and return on equity tumbled (chart).

In response, Labatt's management de-

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MOVE OVER, BOOMERS

THE BUSTERS ARE HERE—AND THEY'RE ANGRY

"The guy who has the job I want is 34 and has a wife and kids. So he's not leaving."

—Amy Ross, 24, who has a master's degree from Cornell University and now works as a traveling fabric salesperson

"I'm very cynical about the Sixties: 'Peace, love, groovy, let's get high'—and look what happened. These people turned out to be worse than the people they rebelled against. They're materialistic hypocrites."

—Blan Holman, 23, free-lance environmental writer

Hear that, baby boomers? That's the sound of the future coming up behind you. It's the sound of the 46 million Americans, aged 18 to 29, who make up the vanguard of the next generation.

Face it, you're not the future anymore. The idea will take some getting used to. As the largest demographic cohort in history moved through the years, boomers shaped much of postwar America—how it dressed, what it watched, read, listened to. Now, as they move into offices both corner and Oval, boomers will determine how America manages and governs.

But for the shape of things to come, look not at the boomers but at their successors. Call them by any of the many names they have already been saddled with—twentysomethings, Generation X, slackers, busters—they are entering the mainstream of American life. They're the ones who are studying on our campuses, slogging through first jobs—or just hoping to land a job, any job.

For all the talk of the baby bust, this is no small bunch. Compared to those born from 1951 through 1962—the core of the baby boom—this current crop of 18-to-29-year-olds is the second-largest group of young adults in U.S. history. They're already starting to set tastes in fashion and popular culture. They're the ones who will vote you into office, buy your products, and work in your factories. They will give birth to your grandchildren, nieces, and nephews.

TATTOOED AND PIERCED. So far, this group is having a tough time. Busters are the first generation of latchkey children, products of dual-career households, or, in some 50% of cases, of divorced or separated parents. They have been entering the work force at a time of prolonged downsizing and downturn, so they're likelier than the previous generation to be unemployed, underemployed, and living at home with Mom and Dad. They're alienated by a culture that has been dominated by boomers for as long as they can remember. They're angry as they look down a career path that's crowded with thirty- and fortysomethings who are in no hurry to clear the way. And if they're angry and alienated, they dress the part, with ag-

THEY'RE DIVERSE...

BREAKDOWN OF AMERICANS BY RACE 1992 ESTIMATE	AGES 18-29 46 million	ALL U.S. 255 million
White	81.2 %	83.5 %
Black	14.0	12.4
American Indian	0.9	0.8
Asian	3.9	3.3
Hispanic*	12.3	9.5

*HISPANICS CAN BE OF ANY RACE

GENERATION X: catchall for busters, from the 1991 book of the same name by Douglas Coupland



GENERATION X



CHILDHOOD

The first "latchkey" generation, busters saw their parents' divorce in drab.

STARTING OUT

They graduated into the teeth of recession, saddled with heavy college loans.

ATTITUDE

Many feel shut out, angry, neglected, pessimistic about their prospects.

MUSIC

Nirvana, Red Hot Chili Peppers, Guns 'N' Roses, Ice-T, Arrested Development.

MEDIA

Magazines they read include Spin, Details, Sassy, Entertainment Weekly. On TV, they watch The Simpsons, Seinfeld, Ren & Stimpy, MTV.

FASHION

The postindustrial thrift-shop look: flannel shirts, baggy or ripped jeans, Doc Marten boots, Teva sandals, reversed baseball caps, wool caps, pierced noses, tattoos.

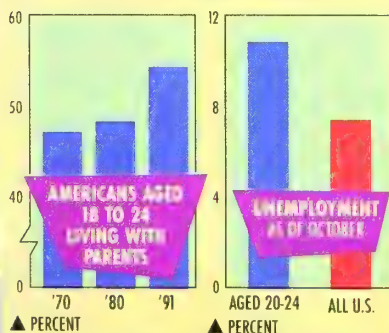
gressively unpretty fashions, pierced noses, and tattoos.

At the same time, though, they're more ethnically diverse, and they're more comfortable with diversity than any previous generation. Many of them don't give a hoot for the old-fashioned war between the sexes, either, but instead tend to have lots of friends of the opposite sex. Furthermore, as a generation that's been bombarded by multiple media since their cradle days, they're savvy—and cynical—consumers.

To many older Americans, the Generation Xers have been a virtually invisible subculture. They have been largely ignored by U.S. media, businesses, and public institutions, which have spent years coveting the baby boomers as audience, market, and constituency. "Marketers have been distracted by boomers going through their household formations," says Scott L. Kauffman, 36, vice-president for marketing, promotion, and development at *Entertainment Weekly*. "Busters don't feel like anyone's paying attention to them."

MAGIC NUMBER. But that will have to change. For one thing, despite their many hardships, consumers in their late teens and their twenties already wield annual spending power of some \$125 billion, according to a survey by Roper Organization Inc. And the baby boomers are essential to the success of many major categories, such as beer, fast food, cosmetics, and electronics. More important, within this decade, these consumers will be entering their peak earning years. With all the boomers block-

...STRUGGLING...



DATA: CENSUS BUREAU, BUREAU OF LABOR STATISTICS, ROPER REPORTS, MRCA INFORMATION SERVICES

...BUT BIG-SPENDING





JULIA GREENRIDGE

Greenridge, 27, is an MBA candidate at Emory University. "I'll have maximum debt coming out of grad school. I don't want to live paycheck to paycheck, but I'll have to."

ing the road ahead, it may take the busters longer than some previous generations. But soon enough, they'll be setting up households by the millions, having families, and buying refrigerators, cars, homes—all the big-ticket items that drive an economy.

Indeed, it could well be the busters who lead the country out of recession, according to the theory of the 25-year-old's powerful purse strings. Richard Hokenson, a demographer at Donaldson Lufkin & Jenrette in New York, has been studying 25-year-olds' purchasing power back to the 1950s. His theory:

When a large number of young adults turn 25 at the same time, they buy a lot of consumer goods, pumping money into the economy and so stimulating demand across the board. Take 1986, when an unprecedented number of Americans turned 25. It was the best year for housing in the 1980s: 1.8 million units were built. And 1986 was also a record year for cars, with sales of 15.1 million cars and light trucks.

BIG GAP. Beginning next year, a bulge of 13 million kids who were born between October, 1968, and March, 1971, will start turning 25. They'll be the largest group of 25-year-olds since 1986. If Hokenson is right, then for three years starting next October, busters will be buying enough houses and dura-

ble goods to ignite a healthy recovery.

So who are these folks who will shape our destiny? The boomers who increasingly dominate the Establishment they once rebelled against will make a big mistake if they assume that the busters are just like they were at that age. "Most marketers today are boomers and much more likely to impose their values on this generation, to the point where busters are invisible," says Peter Kim, U. S. director for strategic planning at J. Walter Thompson North America.

At a recent convention of magazine publishers and editors, Karen Ritchie, senior vice-president at ad agency McCann-Erickson in Detroit, told a largely boomer audience that they were in danger of losing busters for whom they didn't pay attention to them. "I told them that the media were treating the next generation very badly," says Ritchie. "They have never been addressed in any significant way and very real reasons to be hostile."

And hostile they are. Busters are the boomers, whom they see as having partied through the 1970s and are sticking the younger generation with the check. "It will be me and my child that pay off the deficit," says Laura Lomis, 23, a part-time bank teller and State University graduate who would like to be a journalist. "I blame the boomers before us."

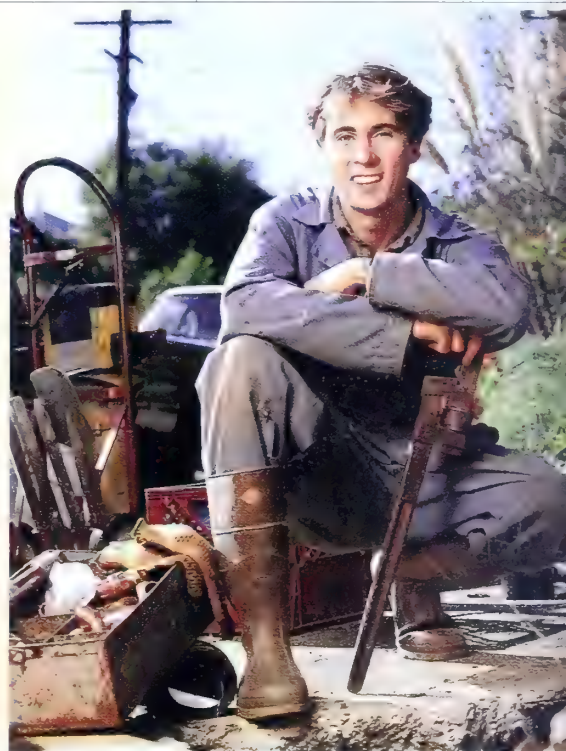
'McJOBS.' Many busters find they graduated from high school and went into unemployment or underemployment (chart, page 75). Unlike the trailing off of baby boomers, who easily entered an expanding job market of the mid-1970s, busters often have to settle for what Douglas Coupland, thirtysomething author of the novel *Generation X*, calls "McJobs"—mundane and marginal, challenging work that provides a paycheck and little else. Take Kris Herty, 22, a graduate of Lewis & Clark College. She wants to be an anthropologist, but she's clerking in a clothing store in Portland, Ore., and taking babysitting jobs. "We were told si-

JONES vs. 1: to sight, as in "you jonesed that girl at the bar" vs. **2:** to want something keenly, as in "I'm jonesin' for new speakers."

GREG FONTANA

A plumber's apprentice in San Francisco, Fontana, 23, lived with roommates but moved home to save money.

"My generation is going to have it tough, just because of the way things are going."



were kids that if we worked hard, we would be successful." Instead, she says, "I worked hard, I had a high grade-point average, and I am 100% overqualified for my job."

This is the generation of diminished expectations—polar opposites of the baby boomers, who grew up thinking anything was possible. In a general survey commissioned by Shearson Lehman Hutton Holdings Inc., 18-to-29-year-olds were the only age group to evaluate their own economic class as lower than their parents'. Of course, that's partly because they're early in their careers, says Sara Lipson, director of business development and market research at Shearson. "But the answer also reflects the sense that affluence is going to be

to achieve, that the window of opportunity is closing on this generation. According to the Center for Labor and Studies at Northeastern University, the current median income for households headed by adults under 30 is \$10,000. That's a 21% drop in constant dollars from 1973.

CASTOFFS. And as if a bleak economic situation wasn't enough, boomers don't have much emotional security, either. Boomers grew up in the post-boomer era of the working dad and maker mom. "Boomers were told, 'You're wonderful, you're the center of the universe,'" says Susan Hayward, senior vice-president of market research firm Yankelovich Partners. "And boomers will feel that way they're 90." Meanwhile, the bust-world became progressively gloomier. The economy began to fall apart, and nets began to unravel, the loan guarantees were gone by the time they went to college, and they didn't have mothers at home," says Hayward. And where baby boomers had the sex-revolution, busters are growing up in the age of AIDS.

KILL-ER adj: great, as in "that's a killer mountain bike"

this insecurity has created a painful paradox. "There's a strong desire to

be Establishment, but the recession is making it very hard to attain that," says Bradford Fay, 27, a research director at Roper. "The ironic thing is that the baby-boom generation had everything for the taking and at first rejected it. Here's a generation that very much wants those things but is having a very hard time getting them."

Except for their collective sense of foreboding, busters have little in common with each other. Where boomers were united by pivotal events, such as the Vietnam War and Watergate, busters have been left largely unmoved by their era's low-cal war, Operation Desert Storm, and scandal-lite, Iran-*contra*.

They're also a racially diverse group, with 14% blacks, 12.3% Hispanics, and 3.9% Asians, compared with 12.4%, 9.5%, and 3.3%, respectively, for the entire population. This diversity isn't always

GRUNGE n: a fashion that celebrates the ill-kempt, lumberjack look

hop and other parts of black culture."

Busters are also creating their own pop culture by borrowing discarded boomer icons and mocking them while making them their own. Witness the renewed enthusiasm among young cable viewers for reruns of vapid TV shows made about two decades or more ago—*Gilligan's Island*, *The Brady Bunch*, and *The Dick Van Dyke Show*. It's all fascinating for trend-watchers. "This derisive viewing of *The Brady Bunch* is not just motivated by a need to feel superior," says Mark Crispin Miller, professor of media studies at Johns Hopkins University. "It's also motivated by a longing for the more stable world of *The Brady Bunch*."



MICHAEL GOFF

Goff, 27,
graduated from
Stanford and
launched *Out*, a
gay magazine.
"When your
friends are dying,
being out of the
closet doesn't
seem like such a
huge deal. AIDS
mobilized me."

accepted—witness the rash of racial brawls on campuses. But the greater prevalence of minorities in this generation heavily influences the language, music, and dress that it adopts. And marketers use black cultural idioms such as hip hop—dance-oriented street music—as a kind of semaphore to reach Xers. "You see the African-American segment of the youth market leading the way," says Thomas Burrell, chairman of Burrell Advertising Inc. in Chicago, which does ads for McDonald's Corp. in African-American publications. "The groups aren't coming together physically, but you see the signals picked up through the media." Adds Keith Clinkscales, 28, publisher and editor-in-chief of *Urban Profile*, a magazine for black college students: "The mainstream has expanded. Now you have Madison Avenue copywriters enjoying the fruits of hip

Busters' passion for boomer castoffs is also creeping into fashion. This fall, the '70s-inspired "grunge" look has influenced some of Seventh Avenue's younger designers. What's grunge? You're showing your age. Grunge is slovenly, asexual, antifashion fashion. The style has even surfaced in *Vogue*. In a special spread in the magazine's December issue, a cast of waiflike models sports long, lank hair, faded flannel shirts, clunky work boots, ripped sweaters, old jeans and corduroys, long flowing skirts, pierced noses, and a bleak "Fine, fire me, I don't care" look. "Grunge speaks to a narrow band and to the exclusion of boomers," says *Entertainment Weekly's* Kauffman.

JOLT-FUELED 'RAVES.' Grunge music is similarly anomie-riddled and angry. Grunge stars include Kurt Cobain and his group, Nirvana, whose 1991 album

Cover Story

Nevermind sold 4.5 million copies in the U.S. *Van Halen* are *Sumo* and *Mudhoney*. Then there are the spontaneous dance marathons on the West Coast, called "raves," where music from such groups as Nine Inch Nails makes up in speed what it lacks in melody. Ravers take over vast warehouses or parking lots, where they dance wildly in huge crowds, often fueled by supercaffeinated Jolt cola, "smart drinks" of caffeine and protein mixers, and Ecstasy, a combination of mild hallucinogens and speed. Busters also dive into new magazines, such as *Details*, *Urban Profile*, *Spin*, and *YSB* (*Young Sisters & Brothers*), that most boomers have probably never heard of.

Grunge, anger, cultural dislocation, a secret yearning to belong: They add up to a daunting cultural anthropology that marketers have to confront if they want to reach twentysomethings. But it's worth it. Busters do buy stuff: CDs, sweaters, jeans, boots, soda, beer, cosmetics, electronics, cars, fast food, personal computers, mountain bikes, and Rollerblades. In part because so many live at home—54% of 18-to-24-year-olds in 1991, vs. 48% in 1980—they have lots of discretionary income (charts, page 75). Their brand preferences haven't yet been entirely established, unlike those of aging boomers who are already set in their ways. And like any group, they will appreciate being courted—if the wooing is done right.

Finding the right tone can be tricky. For one thing, Xers were often exposed to the temptations of consumer culture at an even more tender age than boomers. Since so many busters grew up with working parents, they were given early shopping chores. Says Linda Cohen, publisher of *Sassy* magazine, "They're used to deciding what stereo is best, what car is cool, what vacation to go on. They are very savvy consumers."

That's good and bad for marketers. It's good because busters are accustomed to shopping, bad because it means they are

far more knowledgeable about and suspicious of advertising than earlier generations passing through their twenties. "Today's teens are media maniacs," says *Sassy*'s Cohen. "Generation X has been brought up in the most overcommunicated society in the world." Adds James

Truman, editor-in-chief of *Details*, whose readers' median age is 26: "They're tremendously cynical because they know the media is most often talking to them to sell them something."

'HEY, WE KNOW.' That combination of cynicism and responsibility even shows up among supposedly carefree college students.

Gary Flood, a vice-president for marketing at MasterCard International Inc., was surprised at how knowingly focus groups of students talked about getting a good credit rating. "Try some frivolous approach in selling them a credit card, or tell them to have a good time with the card with their friends, and it turns them off," Flood says. Instead,

MasterCard is providing serious handling credit responsibly. Similar a move that shows an understanding of buster concerns in the dour 1990s. Communications Corp. has planned a promotion around a brochure it is publishing on the dos and don'ts of financial first job.

At the same time, busters are off by marketing pitches that take themselves too seriously. Not for the 1980s-style yuppie ads that treat cars or expensive cosmetics so rhetorically. Busters respond best to media that take a self-mocking tone. It works, says market researcher Langer, is "advertising that is

TAKE TO THE HOOP

vt: confront and criticize

and hip, and says, 'we know.'

So how do you know? In one session ad for May Inc.'s Expert Eyes

ow, model Christy Turlington is looking coolly glamorous against moonlit sky. A voice-over says: "We're strange celestial event... that gives such bewitching eyes?" Then, Turlington, magically transported to her room sofa, laughs and says: "Get it." Says Sheri Colonel, executive president at Maybelline's ad agency in New York: "We found we had



COUPLAND'S *GENERATION X* CHRONICLE OF DISPOSSESSED YOUTH

ADS AIMED AT BABY BUSTERS



Now Cindy is Cindy

YOU BETTER GET HIP AND OVER TO McDONALD'S FOR THE SLAMMIN' EXTRA VALUE MEAL DEALS



HIP HOP IMAGES SIGNAL McDONALD'S IS ON THE CUTTING EDGE

MTV-STYLE IMAGERY IN ADS FOR SEGA'S NEW VIDEO GAME

DIVERS SUPER CINDY CRAWL IN NEW FOR R

RAVE n: frenetic mob dance held in a warehouse, parking lot, or under a bridge; Big in California

ANK-Y
1: un-
shed,
k 2: un-
irabile

irreverent, sassy, and surprising with this age group."

Another cosmetics maker, Revlon Inc., has ditched the gauzy, worshipful ad approach in

of a pitch that plays to diversity. is for its Charlie perfume, Revlon s supermodel Cindy Crawford play- basketball with a racially mixed) of young men.

o Bell Worldwide also figured it o use a playful approach to pursue rs. The fast-food chain did a lot of et research to determine the right says Tim Ryan, senior vice-presi- for marketing. His discovery: Bust- ove music, they love to party, and love irreverence." Taco Bell's ad y, Foote, Cone & Belding, created apaign that incorporates rockabilly and MTV-style shots of musicians ng in the desert.

rketers also figure that busters o think that they live life on the So one sure sign of an ad aimed at group is imagery of wild, death- ing stunts. "You're dealing with a that really feels like it's seen it says Ann Glover, brand manager PepsiCo Inc.'s regular and Diet tain Dew soft drinks. "So the chal- lenge is how do

you create a commercial that breaks through to this person who thinks he knows everything?" Recent TV ads for the \$275 million Diet Dew brand attempt to reach 20-to-29-year-old men by showing their ilk rollerblading down a volcano or kayaking over a waterfall. Diet Dew advertises aggressively on MTV and on Fox Broadcasting Co. shows such as *Melrose Place* and *In Living Color* intended for busters.

HONESTY POLICY. Buster cynicism about blatant product pitches has also shaped Nike Inc.'s marketing. Says Kate Bednarski, global marketing manager for the footwear maker's women's division: "That's one of the reasons we decided to be as honest as possible, even though we are a brand name and trying to sell a product."

Nike's ads for women's athletic shoes are all soft sell, showing little footwear or apparel. Instead, they feature a lot of



RICHARD LINKLATER'S *SLACKER*: ANOMIE IN AUSTIN, TEX.

text and depict women running, walking, or doing aerobics—always resolving with an exhortation to go do some self-improving fitness activity—sort of a consciousness raising session in print. "I always read Nike ads from start to

finish," says Abby Levine, 23, a junior retail executive in New York City. "They always have some words of encouragement."

Busters also resent all the lecturing they have gotten from boomers, who, as Ritchie of McCann-Erickson notes, have grown increasingly restrictive and reactionary as they approach middle age, despite their revered memories of free love and political protest. "The repressiveness of the baby boomers has really come to the fore in the last 10 years," Ritchie says.

Recent TV ads for the Isuzu Rodeo off-road vehicle tap into busters' feelings of rebellion. One begins with a little girl in a classroom being urged by her teacher to color only between the lines. In the next shot, she's a twentysomething who abandons the traffic lanes and roars off the highway onto a dirt road. As a result of the campaign and its success with busters, the average age of Rodeo buyers has dropped into the low 30s, and overall sales have increased 60%, to 5,000 a month.

Not that busters don't have their own orthodoxies. They're concerned about the environment: Ice cream maker Ben & Jerry's Homemade Inc. sells this point by informing customers of how it recycles packaging and buys blueberries from Indians in Maine.

BYE-BYE, BIMBOS. And while they respond to sexy advertising, they're repelled by anything that smacks of sexism. When August A. Busch IV became brand manager for Budweiser in July, 1991, the then-27-year-old told Anheuser-Busch Cos. wholesalers that research showed the typical bouncing-bimbo-filled beer ad "just doesn't cut through"

to the 21-to-27-year-old drinkers he wanted to reach. Busch launched a campaign that displayed the kind of nonsexist irreverence that appeals to many Xers. One ad shows a granny teaching a rocker how to play his guitar better. Another series has busters receiving a

CRUNCH-Y
adj: ecologically correct; said of granola eaters

SLACKER n: from a movie and book of the same name; a drifting buster who works in a dead-end job



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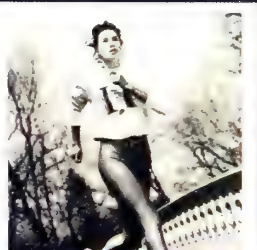
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NIKE'S SOFT
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SHOW DARE-
DEVIL STUNTS

THE RETRO
LOOK IS HOT
FOR MAXWELL
HOUSE'S
CAPPIO ICED-
COFFEE DRINK



THE ONE ON THE LEFT MAKES THE ONE C

The new COMPAQ PAGEMARQ 20 and COMPAQ PAGEMARQ 15. Two network laser printers that will immediately establish the industry benchmark. Printers for those who want nothing short of everything.

After rather extensive R&D, we realized the average network printer was doing more to raise your group's blood pressure than its productivity.

So we created two new network printers bristling with features that will help everyone work in harmony.

For starters, COMPAQ-built, RISC-based controllers, in combination with powerful print engines, let our printers run at 15 and 20 PPM. And at 20 PPM, that's 100% faster on average than HP LaserJet III Si



in PostScript applications.

And the ability to print in sizes up to 11" by 17" will really make your day. Especially if it's filled with everything from envelopes to double-page layouts to CAD plots to spreadsheets.

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Not only do our printers know PostScript Level 2 and PCL5, but unlike others, they come equipped with Intelligent Emulation Sensing. A feature that constantly monitors, with laser-like precision, the language that anyone is using at any given time, and then automatically adjusts to the emulation without having to lift a finger.

Truly network-

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slightly tongue-in-cheek lesson about the glorious tradition of Bud from older bar-mates. Busch's father, CEO August A. Busch III, was skeptical. "But he's looking through younger eyes," the father admitted. "He was right, and I was wrong." Through September, Anheuser-Busch posted a 1.3% gain in barrel shipments; the industry showed a 0.3% gain.

Marketers who get their messages

right may be in for a pleasant surprise. Like other demographers, Hokenson of Donaldson, Lufkin & Jenrette believes that a population cohort's size has a big influence on its standard of living. Today's baby-bust generation, large as it is, still runs smaller than the boomer generation. That means it may not face the heavy competition boomers now encounter from their numerous brethren.

So, despite their struggles, busters may yet end up living better than the boomers. That would be a rich irony: the overlooked generation ultimately beating out the Me Generation in the race for prosperity.

By Laura Zinn, with Christopher Powell in New York, Dori Jones Yang in Seattle, Alice Z. Cuneo in San Francisco, Debra Ross in New Haven, and bureau reports

THEY WANT THEIR MTV. THEY DON'T WANT ABC, NBC, CBS...

Todd Lencz could easily be the real-life template for the characters on *Melrose Place*. Like the fictional "baby busters" in the Fox Broadcasting Co. series, Lencz is in his mid-20s, well-educated, and lives in a comfortable Los Angeles apartment. Like one of the characters, he is working part-time to pay for his graduate training. So what does Lencz, a PhD candidate in psychology, think of Fox's paean to busters' life? "It's the dumbest thing I've ever seen. The characters have no personality, and the stories are entirely formulaic."

Sadly for Fox, that's no minority opinion. *Melrose Place* has faded like a Southern California tan in winter since its debut last July. Despite *Melrose*'s promising pedigree as a spin-off of the high school hit *Beverly Hills 90210*, young viewers aren't warming up to this vision of recent college graduates confronting the real world.

TURNOFF. It has become the great conundrum of television programming: Busters were weaned on the tube, but give them a network show of their very own, and they're likely to tune it out faster than a Barry Manilow ballad. In addition to Fox, NBC and ABC rolled out several new dramas and comedies this season aimed at young viewers. Yet so far, two of them, *The Heights* and *The Round Table*, have been canceled. And several others are languishing in the ratings cellar.

True, programs such as Fox's *The Simpsons* and NBC's *Seinfeld* have a loyal following among young viewers.

But overall, the networks have been unable to carve out a franchise with this audience. Ten years ago, 36% of the network prime-time TV audience was under the age of 35. Last season, just 31% was. "They're more likely to watch alternative media" such as cable, says Betsy Frank, director of TV information and new media at Saatchi & Saatchi Advertising. "They're very selective, and they grew up with a remote control in their hands."

That poses a knotty problem for advertisers. They covet the 18-to-34-year-old age group. And network TV is still the most cost-effective way to sell products to a mass audience. So marketers keep prodding the networks to develop youthful programs, hoping that each new one will be a breakout hit like *Beverly Hills 90210*. But CBS, the one network that has resisted such entreaties, leads the Nielsens.

Why are young viewers rejecting shows aimed at them? For one thing, many are almost comically unoriginal. After the success of *Beverly Hills*, programmers rushed for the Xerox machine. Four of this season's new shows are dramas with an attractive clique not unlike Luke Perry and his pals. Yet another college-age cohort will arrive in January, when Fox rolls out the ensemble drama *Class of '96*.

Fox executives say their programs still speak to young viewers in ways the other networks don't. Andy Fessel, senior vice-president of research

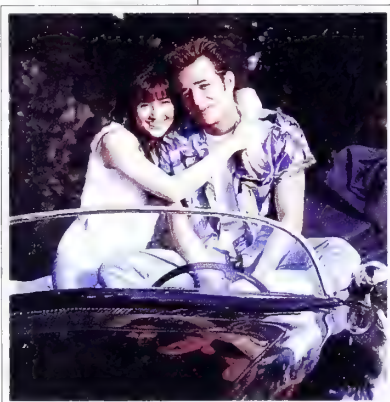
and marketing at Fox, insists the ratings for *Melrose Place* will take off once its characters are more fully developed. But he concedes: "There has been a tendency to copycat success."

'FOOL'S ERRAND.' Engaging twenty-somethings, though, may take more than just engrossing characters or a nifty premise. After all, these are the viewers who grew up on the nonlinear structure and blizzard of images on MTV. "My mind is trained to receive images at that rate," says Lencz. For him and other busters, even the concept of sitcoms and dramas seems a bit dated. "They care a lot less about plausibility, character development, and plots that make sense," says Mark Crispin Miller, professor of media studies at Johns Hopkins University.

Certainly, MTV has had success junking the traditional narrative format. The music-video channel boosted its ratings this summer with *The Real World*, a documentary that recorded the antics of seven twentysomethings types with all the coherence of a home movie. MTV plans more such video-verité efforts next year.

Some programmers argue that the networks should concentrate on developing good shows and leave the pursuit of youth to MTV, since these restless viewers will never be a reliable audience: "To try to capture this group is a fool's errand," says Grant Tinker, former chairman of NBC. Tinker's old colleagues may inwardly agree. But given the pressure from sponsors, they know that winning the young is one programming riddle they have to crack.

By Mark Landler in New York, with bureau reports



SHANNEN DOHERTY AND LUKE PERRY OF *BEVERLY HILLS 90210*: A RARE BREAKOUT HIT

MELROSE PLACE'S THOMAS CALABRO: LANGUISHING IN THE RATINGS



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THE PILEUP OF QUESTIONS ABOUT FRUEHAUF

The SEC is again examining the truck-trailer maker—and investors keep getting slammed

It looked like a rock-solid stock offering. When Fruehauf Trailer Corp., once the nation's dominant truck-trailer maker, sold 33% of itself to the public in July, 1991, at \$11 a share, investors snapped up the stock. After all, Randolph W. Lenz, chairman of Fruehauf's parent, Terex Corp., had said shortly before the offering that Fruehauf's "cash flow and overall liquidity remain healthy due to our strong working capital position, and we look forward to improved earnings prospects as the economy recovers." The good news continued. By April, 1992, the shares had surged to \$17.75 apiece. Last July, Arthur E. Rowe, then Fruehauf's CEO, boasted: "We're well on our way to being virtually debt-free in the near term."

But the good news was too good to be true. It appears that the company may have been less than diligent in disclosing in a timely fashion a lot of its problems, brought on at least in part by the recession. During the second quarter of 1991, slumping sales and earnings caused Southfield (Mich.)-based Fruehauf to fall out of compliance with the terms of its loan agreement with a group of banks. Just before the initial public offering, it skated perilously close to default on the bank loans, which are fully secured, yet it didn't inform prospective investors of that. Not until March, 1992—long after the IPO—did the manufacturer finally disclose to shareholders its lack of compliance with the loan agreement.

TIGHTER LEASH. Moreover, in late 1991, the Securities & Exchange Commission ruled that the company had used overly aggressive bookkeeping—chiefly, counting excess pension-fund money as income—to puff up reported second- and third-quarter earnings. The SEC pressured Fruehauf to lower earnings dramatically for the two periods (table). Since then, under more conservative accounting, the company has run a red-ink gusher each quarter. Losses in 1992 through Sept. 30 total \$28 million (chart).

Investors have suffered. Since April, the stock has sunk to 5. "This is a case of a company tricking the investing pub-

lic," says Howard M. Schilit, an accounting professor at American University. Terex, which now has 42% of the stock, retains voting control of Fruehauf.

In a three-hour-long interview with *BUSINESS WEEK* on Dec. 1, Lenz and other top executives denied that the company has misled investors in any way. Lenz says Fruehauf was not in default under its bank agreements at the time of the public offering because the banks had granted it a waiver. Marvin B. Rosenberg, Fruehauf's secretary, says the company was not required to disclose that the banks had given it a reprieve on loan violations. Lenz also asserts that Fruehauf has never missed a bank payment and that it was never required to disclose potential defaults. Nevertheless, David J. Langevin, a vice-president at KCS Industries Inc., a management firm controlled by Lenz that has operational control of Fruehauf and Terex, says:

"We have to come out with very conservative [earnings statements] from this point forward. Even much more conservative than our previous ones."

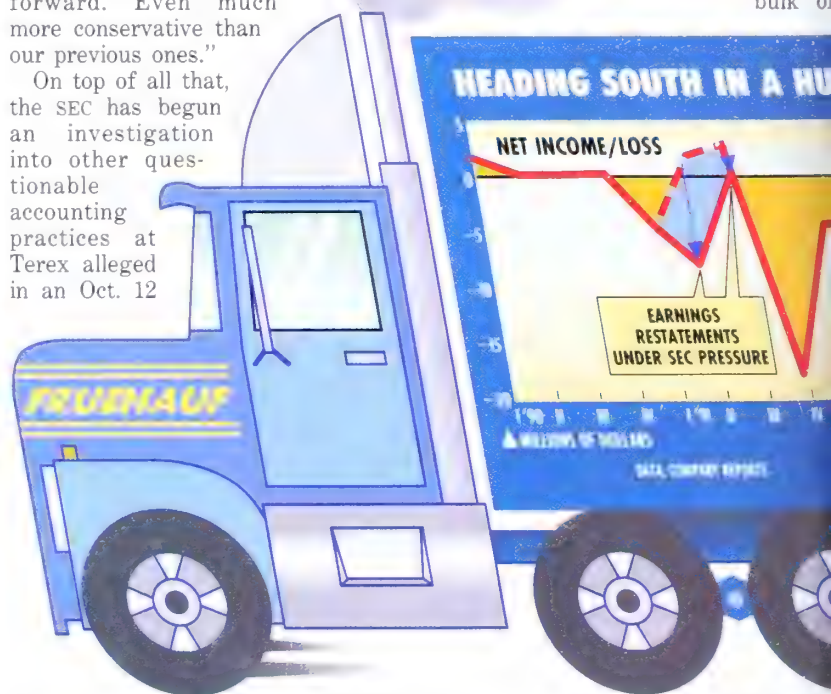
On top of all that, the SEC has begun an investigation into other questionable accounting practices at Terex alleged in an Oct. 12

BUSINESS WEEK story. "The SEC adorned us with a number of comments," including a 10-page letter requesting information and documents, confirms Langevin.

In fairness, Fruehauf has been struggling since late 1986, when it was loaded with debt from a \$1.4 billion leveraged buyout by management led by Merrill Lynch & Co. From then on, Terex bought Fruehauf's truck-trailer division for \$231 million in July, 1989, the company had cumulative operating losses of \$90 million. (The other part of the company, K-H Corp., was sold to K-H Corp. in 1989.)

Yet Terex looked like a miracle worker for a while. Even though the company's purchase coincided with the beginning of a sharp cyclical downturn in the truck-trailer business, the Fruehauf division posted a profit of \$2.3 million for 1991, according to the stock-offering prospectus. Current

former executives say bulk of



ings came from fulfillment of back-
ed orders, shaving overhead, and
ing down reserves.

ce those quick gains were exhaust-
e reality of the recession began to
Fruehauf posted a \$4 million loss
he first quarter of 1991, putting
sure on its dwindling cash res-
es. The loss, if it continued, would
put Fruehauf in default of its
s' terms, which required profits of
llion for the first six months of the

In May, to forestall that possibili-
was able to get amendments to the
requirements drawn up by the bank
. Among other things, the banks
ed the income threshold from \$8
n to \$2 million for the first six
ns of 1991.

OF INTEREST. High debt was also
ing it difficult for Fruehauf to meet
anks' net-worth standards. Encour-
by its bankers, Terex issued a
auf IPO on June 28 to raise cash.
respectus didn't mention that Frue-
was having trouble complying with
an agreements—a fact that would
been of interest to prospective in-
rs. Nor did it mention the signifi-
of the May loan amendments.

hat drove this equity offering ex-
ely was that they were in violation
e loan agreement," speculates
ican University's Schilit, adding:
makes it more egregious that they
disclose it in the prospectus."
auf executives deny that and con-
that they needed the fresh capital
uce debt.

l, the easier loan terms weren't
enough. To meet the \$2 million
um-profit target for 1991's first
Fruehauf took \$10 million in excess
y from its pension fund and fed it

THE OTHER MESS: LENZ VS. KIDDER

Randolph W. Lenz, chairman of
Fruehauf Trailer Corp. and
Terex Corp., its parent, is in a
nasty legal battle with Kidder, Pea-
body & Co. that could threaten his con-
trol of Terex.

Lenz, who owns 52% of Terex, has
used 1.3 million of his 5 million Terex
shares as collateral for three margin
accounts at the brokerage. Terex stock
has suffered badly this year, partly be-
cause of losses at Fruehauf. Other bad
news for Terex was a *BUSINESS WEEK*
story in October that raised questions
about its accounting practices.

Later that month, according to court
papers, Kidder told Lenz his stock had
dropped so far that he was in default
of its margin requirements. The firm

ordered him to repay \$6.5 million in
loans against his accounts. When Lenz
replied he didn't have enough cash,
Kidder threatened to sell his Terex
shares, according to documents filed in
New York State Supreme Court.

To stop the sale, Lenz requested a
temporary restraining order, which the
New York judge granted. A hearing on
the matter will be held sometime next
year. Lenz claims he's not in default on
the accounts. A forced Terex sale, he
argued in an affidavit, "would inflict
devastating financial harm on public
shareholders, the company, and me" by
driving the price down. It would also
cut his holding to below 50%.

That could put Terex in a bind. Some
of its loan agreements require Lenz to
maintain a majority stake. Dipping be-
low this could force Terex to redeem
millions of dollars in debt, which it
could ill afford. As if Lenz didn't have
enough to worry about.

By Michael Schroeder in New York

into the company's income stream as op-
erating profit. That helped put it in the
black for 1991's second quarter. A note
in the second-quarter earnings report re-
ferred only to a "nonrecurring pension
expense adjustment" without disclosing
the \$10 million amount. Rosenberg, the
company's secretary, says Deloitte &
Touche, its accounting firm, approved
the pension adjustment.

The SEC did not approve, however. So,
in November, 1991, Fruehauf removed
the gains stemming from the pension
adjustment—a move it disclosed in a
press release. Revised earnings released
later that month showed a loss of \$8
million for the second quarter and a
barely profitable third. The SEC is per-

mitting Fruehauf to book the \$10 million
gain, but only by stretching it over 12½
years, starting this year.

Questions about Fruehauf's account-
ing continued. In October, Fruehauf and
Terex dismissed Deloitte. In a letter to
the SEC, the accounting firm explained
that it had held six meetings with com-
pany executives discussing changes it
wanted "relating to the financial report-
ing process and the role of the Audit
Committee, and timely discussions with
the auditor of proposed significant trans-
actions." Following the *BUSINESS WEEK*
story that month, which raised questions
about Terex' accounting practices, the
SEC requested information about Terex
and Fruehauf from Deloitte. Rosenberg

FRUEHAUF'S TALTERING FORTUNES

1989

ys truckmaker for \$231 million

H, 1991

g economy pushes Fruehauf \$4 million into the red
quarter. This threatens to force company into
on bank loan agreement

Y, 1991

is grant reprieve. Then Fruehauf pumps up profits by
oring off \$10 million in excess pension-fund money,
ch keeps it within bounds of loan terms

JULY, 1991

Sells 33% of its stock to public, but doesn't mention in public
documents that it needed bank reprieve to avoid default

NOVEMBER, 1991

SEC nixes pension fund maneuver, causing Fruehauf to dras-
tically lower reported earnings for second and third quarters

MARCH, 1992

Fruehauf finally discloses to shareholders its 1991 noncom-
pliance with loan pacts

NOVEMBER, 1992

Announces record \$19.4 million quarterly loss

says the company hired Price Waterhouse to replace Deloitte "strictly on the basis of price." Rosenberg denies that there were any disputes between Fruehauf and Deloitte over accounting practices. Deloitte had no comment.

Whatever the case, Fruehauf's latest quarterly SEC filing exhibits a new openness about its troubles, the result of intensifying disclosure pressure by the SEC. "Our policy is, if it's negative, state it," says Langevin. The unmistakable message: Fruehauf is in desperate need of cash. It admits that half of its bills from suppliers are past due. And because of ever growing losses, the company is in default. It can't meet the banks' more lenient test of \$4.2 million in losses for the current six-month period. Fruehauf expects to receive another waiver.

FAT CITY. Under a bank restriction, Fruehauf's operating losses should have forced it to reduce the hefty management fees it has been paying to KCS, the Lenz-controlled management firm. But Rosenberg says the banks allowed continued payments to KCS by granting waivers to the loan terms. Although Fruehauf lost \$30 million last year, KCS got paid \$3.6 million. And despite three quarterly losses this year, totaling \$28 million, KCS has garnered an additional \$2.4 million. The company's latest SEC quarterly filing says no more payments will be made to KCS this year.

Fruehauf sees a turnaround in the offing. It just hired a new CEO, Thomas B. Roller, 42, a former president of New Orleans-based Plywood Panels Inc. And the limping tractor-trailer industry should recover with the economy. Lenz says Fruehauf's order backlog has risen 8%, to \$93 million, since last year. Indeed, much of this year's losses relate to a \$15.5 million reserve in anticipation of an upturn, to be used, for instance, to realign the dealer network.

Nonetheless, how much Fruehauf can capitalize on this projected growth is an open question. Loan terms are a major constraint on its ability to divert cash from debt payments to business expansion. Starved for cash, it will have difficulty making headway against such tough competitors as Great Dane Trailers and Wabash National Corp., which have taken advantage of its woes. Fruehauf insists it will once again be the premier trailer manufacturer. But KCS' Langevin concedes that "you don't change a monstrosity like Fruehauf that went through a terrible LBO in 1986. It's a 10-year process." Meanwhile, investors who bought Fruehauf stock when it was flying high amid rosy forecasts from management must feel like they have been hit by an 18-wheeler.

By Michael Schroeder in New York

INSURANCE

LOOK WHAT UNIVERSAL LIFE BEGAT

Now, insurers are offering a slew of new rate-sensitive policies

When universal life insurance was introduced in the early 1980s, it was an almost-instant smash. Today, it is gradually fading away. Yet universal life is spawning a welter of similar products that could shake up the industry and provide more and better choices for consumers.

A rarity in an industry that's known for its stuffiness, universal life was a true innovation: an insurance product that fluctuated with current interest rates and had flexible premiums. Policyholders could increase, decrease, or skip premium payments, increase the death benefit, or add to the cash-value in the policy. And universal life policies offered

Massachusetts Mutual Life Insurance Co. But while the newer products offer rate-sensitivity, they often lessen the downside risk and assuage consumers' fears about the financial soundness of the insurance industry.

Among the most popular new products is so-called variable life insurance. Rather than have the cash value invested by the life-insurance company, variable-life policies allow policyholders to direct the cash value in their policies into a variety of stock and bond funds. The investments in the funds are separate from the rest of the insurance company's assets, so it's another level of protection for "risk-averse investors," says Steven Putterman, assistant vice-president of market strategy at Aetna Life Insurance & Annuity Co. Aetna plans to offer the fund options from those managing their own investment advisory portfolios of one or two outside firms.

PEACE OF MIND. Another new offering is a hybrid, the universal variable policy, which allows the policyholder to change investments and face value. And some old policies are seeing renewed life. In November, Aetna, one of the major universal life vendors, added interest-sensitive whole-life policies to its portfolio of traditional whole-life policies, premiums remain level for the life of the policy. That makes them more expensive than universal-life policies. But the provisions avoid the problem that plagued universal life during the 1980s: consumers might have to make large premium payments. Further, any investment earnings in excess of the guaranteed rate can be used to pay premiums. "It's not new, but it's seeing a resurgence because of the drop in interest rates, and also the fact that there's a flight to quality; people are looking for more guarantees in their policies," Putterman says.

With consumers willing to give up a little upside to get more peace of mind, universal life's glory days are unlikely to return. But its progeny should thrive. Insurance companies are finding that consumers are a lot more comfortable with policies with more downside protection and fewer grandiose claims.

By Suzanne Woolley in New York



higher rates than did traditional whole-life policies.

Universal life, though, proved to be solely a creature of high rates. When interest rates started falling, which reduced investment returns, policyholders soon discovered they often had to increase premium payments to keep up coverage.

Now, universal life is giving way to a new generation of flexible, rate-sensitive products. It is packaging the new offerings "in a universal-life wrapper, so you get premium flexibility and face-value flexibility," says Thomas B. Wheeler, president and chief executive officer of



THE BULL RUN IN CHINA

Everybody who's anybody on the Street is headed over—or back

Vendors hawking T-shirts at the Great Wall. A standing-room-only McDonald's two blocks from Tiananmen Square. To money manager Daniel F. Holland, vice-chairman at Oppenheimer & Co., it seemed as if China's long-suppressed entrepreneurial spirit was flourishing everywhere. But the highlight of his 10-day jaunt in early November was an hour-long meeting in Beijing's Forbidden City with Zhu Rongji, China's vice-premier and economic czar, to discuss a possible joint venture. "I am a cold war horse. I was awestruck," Holland.

On Wall Street, everybody who is anybody from money manager Julian Robbins to buyout maven Theodore Forstner, seems to have just visited China. In New York, four separate conferences on investing in China were held during the week in November. U.S. investment firms are staffing up in Hong Kong, hiring for China experts, and currying favor with Chinese government leaders. During the 1980s, we were intermediaries for hundreds of billions in capital flows out of Japan. That game ended, and the focus has shifted to China," says John S. Wadsworth Jr.,

head of Morgan Stanley Asia Ltd.

So far, U.S. firms haven't chalked up big profits from China connections. But that hasn't stopped them from betting that despite a Communist Party clinging tenaciously to power, China's economic reforms are now irreversible. Many on Wall Street believe that China is commercially and financially coming of age and that the reform program presents big opportunities. And bankers expect the huge inflows of capital into China from wealthy overseas Chinese to continue.

Much of the excitement stems from the potential for China's equities. Despite serious problems with Chinese ac-

WHAT U.S. INVESTMENT BANKERS ARE UP TO

- ▶ Taking Chinese companies public in China and the U.S.
- ▶ Teaming up with the Chinese government to make direct investments in infrastructure projects
- ▶ Brokering joint ventures between U.S. and Chinese companies

DATA BW

counting practices, on Oct. 9, Brilliance China Automotive Holdings Ltd., a Bermuda holding company that owns the largest minibus manufacturer in China, became the first Chinese company listed on the New York Stock Exchange. The stock has since soared from 16 to 32. "We're likely to see some 5 to 10 transactions in 1993 as high-profile and lucrative as this," says Bryant W. Seaman, a director at First Boston Corp.

LONG SHOT. But China's regional stock market in Shanghai has plunged lately. That hasn't stopped Merrill Lynch & Co. from underwriting an offering by Shanghai No. 2 Textile Machinery Co., a state-owned operation converted into a corporation whose shares are traded on the Shanghai exchange. "The standards for disclosure and investor protection in China aren't as high as Western standards," says Hank Tsang, a Merrill director in Hong Kong. "It's really a matter of gambling with higher risks for the opportunity of higher returns."

Lured by hefty tax breaks from the Chinese government and the prospect of fat finder's fees, U.S. investment banks are seeking to broker joint ventures between Chinese and American companies. In mid-November, M.R. Beal & Co., an African-American-owned investment bank, ushered a group of 56 businessmen from Shenzhen, a special economic zone near Hong Kong, to meet with potential partners in the U.S. "We want to promote ourselves to the world," says Dao Ming Zhao, director of Shenzhen Petrochemical Co., which has hired an American accounting firm to help it gain a U.S. exchange listing.

The biggest payoffs, American investment bankers feel, could be direct investments in Chinese real estate or infrastructure projects. "The next wave in China will be principal investing as partners with the Chinese," says a U.S. investment banker with three such deals in the pipeline. Oppenheimer is negotiating with the government on such projects as highways and theme parks.

Wall Street, though, has a long history of chasing hoped-for bonanzas that turn out to be dry holes. Little has come from forays into Eastern Europe and the former Soviet Union. China's current open-door stance could be hurt by friction between Hong Kong's pro-democracy government and China, which has sent the Hong Kong market plummeting. And President-elect Bill Clinton may take a tougher line with China. "It could all blow up in the next month," admits one U.S. banker. But in the meantime, Wall Streeters are likely to keep scrambling to implement Communist leader Deng Xiaoping's slogan: "To get rich is glorious."

By Leah Nathans Spiro in New York, with Dave Lindorff in Hong Kong

BY GENE G. MARCIAL

SUPERMAC IS STARTING TO SIZZLE

No, SuperMac Technology isn't another way to cook up giant burgers. It's an upstart high-tech company that's starting to catch the fancy of some techies, causing its stock to log in a sizable gain. Since going public in mid-May, SuperMac's stock has climbed from 9 a share to 14.

"Although the stock has gained strong momentum, SuperMac remains way undervalued," says Charles Finnie, a partner and analyst at Volpe, Welty, a San Francisco investment bank that co-sponsored SuperMac's initial public offering along with PaineWebber and Montgomery Securities. Based on projected yearly 20% earnings growth, he sees the stock hitting 20 in six months and 30 in a year.

As a major producer of high-performance color-graphics systems for desktop publishing, a sizzling area in the computer industry, "SuperMac has been coming out ahead of expectations," says Finnie. So he has raised his fourth-quarter earnings estimate from 20¢ to 22¢ a share, vs. last year's 15¢. Finnie hiked his 77¢ estimate for 1992 to 80¢, and his 95¢ figure for 1993 to \$1. SuperMac earned 40¢ last year.

NO STRINGS. Focusing on the high-end desktop publishing market, SuperMac's 24-bit color-graphics circuit boards and large-screen color monitors have been rated among the best by analysts.

So far, Apple Computer is SuperMac's main customer. More than 20 SuperMac products are designed for use with Apple's Macintosh computer. The company's relationship with Apple isn't based on any binding contract—so Apple could walk away if it chooses.

But that isn't likely to happen soon, argues Finnie. SuperMac, he notes, recently said it is making new accessories for Apple's Macintosh Duo System, including an adapter that connects Apple's new PowerBook system to desktop Macs. "The fact that SuperMac continues to provide Apple with technology shows Apple's high regard for SuperMac's expertise," says Finnie. SuperMac's new products include DigitalFilm, a video board that provides full-screen, full-motion video; ProofPositive printers, which produce full-color photo-like images; Thunder/24 for Windows, a graphics accelerator that

STRONG GAINS FOR SUPERMAC



marks SuperMac's entry into the Windows market; and VideoSpigot for Windows, a version of SuperMac's VideoSpigot line that enables Macintosh users to capture full-motion video "in real time" from a video camera, VCR, or TV on a hard disk.

Another SuperMac bull is Mike Murphy, editor of the *California Technology Stock Letter*. "SuperMac's products are hot," he says, adding that the company's big advantage is in profit margins. "While SuperMac's costs are relatively low, its products sell at premium prices."

RECOTON: THE RIGHT CONNECTIONS?

Recoton, a major marketer of consumer-electronic accessory products, has weathered the recession far better than its peers. The earnings slump continued into 1992 for most of the industry, but Recoton has been in high gear. As a result, its stock is up from 13 a share in June to 18. But some big investors are far from content. They believe the stock has yet to reflect Recoton's upbeat drive.

"For a company that has demonstrated tremendous growth, Recoton is too cheap at its current price," says Eric Kuby, chief investment officer at Rodman Advisory Services. In the third quarter ended Sept. 30, Recoton, a supplier of more than 1,000 accessories for the hookup, maintenance, and enhancement of VCRs, personal computers, and telephones, posted a 68% earnings jump, to 37¢ a share.

Kuby expects full-year Recoton earnings of \$1.35 a share this year and

\$1.50 in 1993, vs. last year's 90¢. Based on 1993 earnings, he says, the company deserves a price-earnings ratio of 15 at a stock price of 22½. In 12 months, he sees it trading at a 20 p-e, which would kick the stock up to 30.

Acquisitions account for part of Recoton's growth. Its biggest catch was Ambico, a major distributor of video recorder and video accessories, acquired in October. Analyst William Jellicoe of Hamilton Investments sees Recoton adding as much as 40¢ to his 1993 estimate of \$1.50. He also expects big future cost savings from an expansion of Recoton's Lake Mary (Fla.) plant, which services a growing list of customers including Casio, Philips, and 3M.

THE ACTION AT MEDICAL ACTION

The current AIDS crisis and widespread fear of infectious diseases have been a boon to Medical Action Industries. Why? The company is a major maker of disposable surgical-related products, such as operating room sponges and towels, as well as gauze and burn dressings. As hospitals and clinics increase their usage of disposable products, demand for Medical Action's wares will grow, says analyst Stuart Linde of Fahnestock. He notes that Medical Action is now on the verge of posting quantum growth and earnings growth," after suffering huge losses in 1990 and 1991.

Earnings slumped in those years when the company's towel imports from China got squeezed by a dramatic change in import quotas. Chairman and CEO Joseph Meringola acted quickly, building a factory in Asheville, N.C., that churned out Medical Action's products. It helped the company get back into the black. Linde sees earnings of 25¢ a share in fiscal 1993, 40¢ in fiscal 1994, up from 6¢ in the year ended Mar. 31, 1992.

Part of the demand for Medical Action's supplies comes from an \$11-million contract with Baxter International for disposable sponge products. Vendors are that Medical Action will get a new order of similar size from another major medical company. Linde figures sales will jump to \$36 million in 1994 from 1993's estimate of \$27 million.

Meanwhile, Medical Action's stock has been on the rise, climbing from a share in early October to 3½. Linde thinks that the stock could double in a year.

“MY CLIENT CALLED ME A NINCOMPOOP.

He said he didn't get the package I'd sent him. He said I was a scatter-brained, spaced-out, good-for-nothing, totally reckless, untrustworthy, undependable, unreliable, absent-minded moron. So, I put him on hold and

I CALLED FEDERAL EXPRESS.

They told me the package was delivered at 9:22 a.m. and his secretary, Joan, signed for it. He said he meant 'Nincompoop' in a good way.”

When you need to know exactly when your package arrived and exactly who signed for it, send it with Federal Express. Because only Federal Express can tell you where your package is within seconds of its delivery. Not days. Not hours.



Seconds. No other company offers such a sophisticated tracking system. Not UPS. Not DHL. Nobody. So next time you need to send a package, send it with Federal Express. Or risk the chance of really being called a nincompoop.

OUR MOST IMPORTANT PACKAGE IS YOURS.™

Right-sizing.



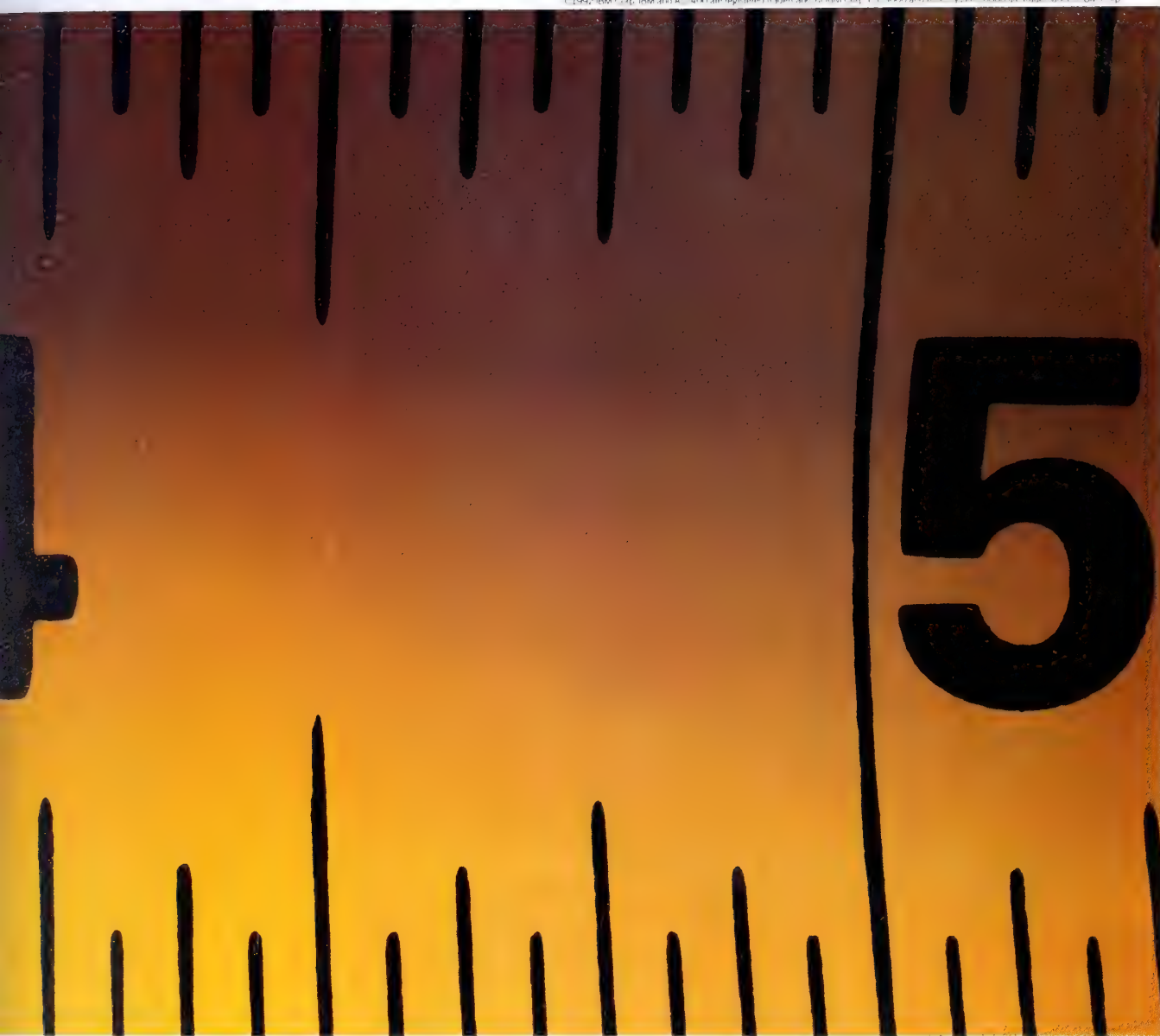
3

The perfect system

There are trends and fashions even in the logical world of IS, and right now "down-sizing" is the hot one. You read about it all the time, usually accompanied by an obituary for mainframes.

Needless to say, this gets our attention and not just because we make big systems.

We make systems of every size, and based on our experience with real customers, we'd say that "right-sizing" is a more useful term than "down-sizing." Especially since a number of companies described as down-sizers not only keep their mainframes but use them more actively than ever.



It's fashionable, it's what fits.

To us, the real challenge is choosing the right combination of systems, not just for running client/server applications but for managing their complexity. Open, distributed environments can make demands for storage, security and network management—jobs that mainframes do better than. Suddenly companies who never dreamed of using IBM ES/9000™s will praise their arrival not because they're big, because they're right. Meanwhile, other companies who chose mainframes ten years ago may be considering other systems like AS/400®s or RISC-based networks,

and we're helping them do it.

For example, while Lincoln National Life has a network of IBM RISC System/6000™s for running client/server applications, the University of Virginia Medical Center chose an ES/9000 for developing and processing medical record applications. For Royal Caribbean Cruise Lines, an IBM AS/400 is just the ticket for booking passengers. Who's right? They all are.

What's right for you? Call us, we can help you decide. Believe it or not, we aren't biased about system types. We make all types.





"HELLO, CENTRAL?" OPERATORS AT A MOSCOW SWITCHBOARD ATTEMPT TO HANDLE CALLS IN A BACKWARD, BADLY FRAGMENTED PHONE SYSTEM

WHY IVAN CAN'T PLACE A CALL

Russia's hands-off telecom policy is slowing up Western help

Russia would seem to be fertile soil for suppliers of phone equipment and services. The nation's antiquated phone network is simply incapable of coordinating the efficient movement of money, goods, and people—vital first steps in rebuilding the shattered Russian economy. The country has only 12 phone lines per 100 people, compared with 43 per 100 in Western Europe. Ordinary Russians are on a 32-year waiting list for new phone lines. Some 360,000 villages are without any phone service at all. And the sole international phone switch in Russia's public network can handle only 124 simultaneous calls between Russia and the U.S.

Yet, even though the world's top telecommunications companies have come to Russia in the past few years, there have been only small pockets of improvement. The biggest gains have been in creating private-network connections from downtown Moscow to the outside world. For calls within the sprawling nation, service is as bad as ever. And it isn't just for lack of mon-

ey. In a country once famous for its Five-Year Plans, there is no overall, Russia-wide strategy to guide East-West partnerships. Bureaucrats enforce operating licenses inconsistently. Technical standards set in Moscow are sometimes ignored by regional authorities. And there are still few incentives to lure Western investors to pump money into projects that will benefit the nation as a

whole—as opposed to quick-fix projects such as hooking hotels or oil rigs to the outside world via satellite.

How bad is it? The phone system is so fragmented that a number of Western companies find themselves yearning for good old central planning. "Decentralization helps us in striking deals, but it hurts because there's no grand plan," says Erik Jennes, general manager of the Network Systems arm of American Telephone & Telegraph Co. in Russia. Adds MCI Communications Corp. Chairman Bert C. Roberts Jr.: "Eventually, Russia is going to have to come to the conclusion that telecom coordination is important to its economic future." Russia currently has more money invested in New Zealand than in all of Russia.

NOT IN TOUCH. For now, systemwide improvements are scarce, and it's extraordinarily difficult to get any message done (box). Calls from Ingelrand Co.'s Moscow office to Nishny Novgorod, some 300 miles away, for example, are constant busy signals. And the average waiting time for a call requiring a 2½-hour wait. So secretaries mostly type messages and deliver them by telex to a printer at the far end. It's the same at other companies. "You don't have the feeling you can be in touch with your people in the event of an emergency," says Russell Kloxin, administrative manager for Conoco International Petroleum, which has installations in Arkhangelsk in Russia's north. The Communications Ministry

WHO'S PLUGGING INTO RUSSIA

AT&T/U.S. Sells digital phone switches; plans to install satellite earth stations in Moscow; funds Russian research

U.S. WEST/U.S. Runs cellular networks in Moscow and St. Petersburg with local partners. Plans to invest in and operate three international phone switches.

GTE/U.S. Sovintel joint venture with San Francisco/Moscow Teleport and others lets Moscow hotels and businesses use satellites to bypass the regular network

ALCATEL/France Combella, a joint venture of Alcatel's Belgian unit and the state-owned Belgian phone company, also uses satellites for international calls

ITALTEL/Italy Builds and sells digital switches; invests in Russian R&D; has a deal to install phone lines in Siberia

DATA BW

ving from operator to regulator, is ng a largely hands-off approach. r task is to work out the strategy penetration and to create the right litations," says Alexei Alyoshin, Rus- Deputy Communications Minister. t that doesn't mean we have to have crete plan. It doesn't mean we are g to plan how many phones in each ity. That is the job of the local ons."

fact, the Ministry seems to be in a an's-land. Last year, it spun off its ational and long-distance arm into mmercialized, state-owned company d Intertelecom. That left the Minis- with an uncertain mandate, especial- its branches in various regions be- going their own ways. A bill- ing in Parliament would create a latory body along the lines of Amer- Federal Communications Commis- but it's unclear whether the Minis- would become that body.

jects involving international ser- seem to be the best coordinated. U.S. West Inc. and AT&T are in- ng in international phone switches atellite stations. And Western tele- companies are continuing to work Intertelecom on building the so- d Trans-Siberian Line, which could day serve as a modern telecom bone for Russia. The idea is to con- the nation with Europe in the west the Pacific Rim nations in the east combination of fiber-optic cable and owave relay. The project, started in 1980s, has been delayed by the kup of the Soviet Union, Russia's gerating inflation, and Coordinating mittee on Multilateral Export Con- (COCOM) rules that prohibit Russia importing the latest generation of -optic gear. Still, the project is go- ahead, with the St. Petersburg-to- ark leg expected to be operating arly as next year.

it even if the continental backbone eated, it won't benefit Russia much ost Russians aren't connected to it. t's needed is a strategy for wiring 's called "the last mile," the fingers e networks that reach homes and resses. Right now, a few regions— ch Tyumen and diamond-rich Yaku- or example—are making deals with tern companies to bolster their tele- networks. And AT&T is poised to unce a deal to upgrade the network major city. But without established nd rules, these new networks could up speaking different telecom dia-. And less affluent Russian local- would be left out in the cold.

anwhile, some former Soviet repub- that retained their monopoly phone tures seem to be getting along bet- In Kazakhstan, AT&T has a deal to ly a million phone lines. And in

Ukraine, the government, AT&T, and the Dutch phone company will build, run, and own a \$50 million network that will let most customers dial international calls directly. Says Ukraine's Commu- cations Minister, Oleg P. Prozhivalsky: "Our approach is different from Rus- sia's. They are creating competition. In Moscow, people can dial direct now. But in other regions [of Russia], nobody can. Here we want to give the possibility of good telecommunications to everyone."

QUICK-FIXERS. That's not to say that all is gloom and doom in Russia—at least not for the Western operators. The list of companies panning for gold reads like a who's who of telecommunications (table). Besides the big players, there are some small ones that specialize in cut- ting red tape and providing quick-fix so- lutions. New York-based Belka Interna- tional Inc., through its Belcom operation, serves oil companies that need to com- municate between field operations, Mos-

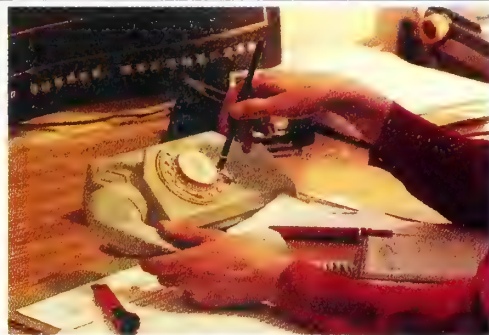
cow, and the West. Among its clients: Chevron Corp. and White Nights Joint Enterprise, which is partly owned by Phibro Energy Production Inc.

However, Westerners proceed know- ing that their plans could suddenly be undone by a new law or a rogue bureau- crat. Laments one Western observer: "The further you go from Moscow, the less they are interested in what the center thinks." Without guidance from offi- cials, say investors, the race for a piece of the action won't add up to better con- nections for Russian consumers and businesses. "Russian officials tend to say that they're following the American model," says AT&T's Jennes. "But they forget it took the U.S. decades to build a phone network." For a nation that so desperately needs good communication, that's a daunting thought.

By Deborah Stead in Moscow, with Roma Ihnatowycz in Kiev and Peter Coy in New York

NOTES FROM THE PHONE GULAG

'WOULD YOU PLEASE REPEAT THAT?" screams the woman who has answered the phone. "I'M WRITING ABOUT TELECOM- MUNICATIONS IN RUSSIA," I respond. "I'LL CALL BACK." I do so. The line is better the second time. After a few seconds, though, I get disconnected. This happens again on the third try. Next come nine tries and nine busy signals. Finally, I get through and stay



MARATHON DIALING AT BW'S MOSCOW BUREAU

on—long enough to learn that the person I want isn't in. Could I please try calling again later?

No problem. In Russia, such episodes are a routine part of the working day. The office I'm calling this time—the business consultancy arm of Ernst & Young—is right across town. As I make other calls in pursuit of my story, my own phone log looks something like this:

1. Call to Kiev, Ukraine, site of an upcoming communications conference. I try 22 times before I get an intercity dial tone. (Though a separate country, Ukraine is still reached by intercity lines.) When I finally make the connection, it isn't bad, but the person I want is in a meeting. The next time, I get the intercity dial tone on the 13th try, after 8 busy signals, 3 dead silences, and 1 unannounced entry into someone else's conversation.

2. Call to the American embassy in Moscow. The embassy has nine listed numbers. (The local network can't handle "hunting," or assigning calls to available lines through an organiza- tion's central number.) I dial eight of them before getting through, but loud bleeps begin to blot out parts of the conversation. I hang up and dial all nine numbers several times before getting a line. This takes 15 minutes. The conversa- tion then picks up where it left off, without comment.

3. Call to the Communications Ministry. My first three tries yield only static and whistling noises. I'm forced to wait a while before making a fourth try: The phone line has had trouble disengaging from my previous failed attempt. Much picking up and putting down of the receiver. When the dial tone returns, I dial and get whirring noises. Victory comes on the fifth try.

4. Call to the international relations section of the Russian Communications Ministry. I ask for the department head. I request an interview. He agrees. "But in person," he says. "Not on the telephone."

By Deborah Stead in Moscow

It's time for a change to the wines of Ernest & Julio G
This holiday, savor the crisp taste of our California Chardonnay elegantly served in Marquis by Waterford





THE WINE CELLARS OF

Ernest & Julio Gallo

Chardonnay

OF CALIFORNIA

*For holiday entertaining ideas from Waterford Crystal and Ernest and Julio Gallo, look for our displays in participating U.S. stores.
Pattern Shown: Claria. ©E & J Gallo Winery, Modesto, CA*

THAT 'HO, HO, HO' IS COMING FROM YOUR LOCAL PC SHOP

Sales are booming as customers go into reverse sticker shock

The overall outlook for retail sales this Christmas may be cautiously optimistic, but in personal computers, it's more like ecstatic. A combination of low prices, new products, pent-up demand, and post-election consumer confidence should boost fourth-quarter shipments to 4.1 million units, up 14% from 1991, estimates InfoCorp (chart). And everybody is winning: Dealers, retailers, and manufacturers are all expecting their best December in years.

In other words, the pain and suffering of this year's gut-wrenching price war may pay off. Lower prices have set off a

head of consultants Merrin Information Services Inc. Indeed, the biggest complaint in the industry these days is shortages—of parts, of PCs, of everything but customers. "This Christmas is going to be excellent," says Safi Qureshey, president of AST Research Inc. in Irvine, Calif. "We have record backlogs. We can't meet demand." Ditto for Tandy Corp.'s Radio Shack stores, where PCs are selling better than they have in several years. "The only bad news is we're

grams written for Microsoft Windows. An October survey of corporate purchasing plans by market researcher Computer Intelligence found that 25% plan to buy new computers within the year, compared with 21% in October 1991. "That's the highest level seen in the last couple of years," Computer Intelligence analyst Kenneth Ness. And 25% of prospective buyers said they would purchase 486-based machines, up from just 2% a year ago. **FIRST-TIMERS.** Of course, the plummeting prices help. Thanks to the price cuts, customers are going into reverse sticker shock: They can't believe how cheap the machines are. A year ago, the median price of a top-of-the-line 486DX was \$4,362, according to Computer Intelligence. This year, it was \$1,888. And 386-based PCs can now be found for as little as \$500.

At these prices, the market becomes viable to a much broader market, says CompUSA President John P. Morton. "We're seeing a lot of first-time customers," he says. Yet while prices might be low, getting them into stores, they aren't necessarily taking the cheapest model. Morton says the

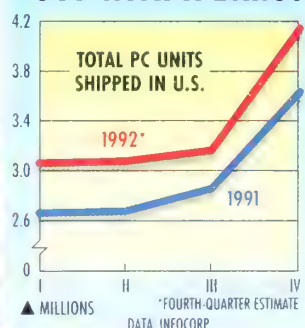
average selling price this year for the 36 CompUSA supermodels is \$2,150, up slightly from last year. CompUSA's most popular model this year is a PC that uses Intel's 25-MHz 80486 chip.

Compaq Computer Corp., which started selling in the market chains such as Computer City and CompUSA only last fall, says it's pleasantly surprised to find that ordinary consumers are willing to spend a little extra for a Compaq over a no-brand machine. Gian Carlo Bisone, vice-

president for North American markets at the Houston company, says he is getting from distributors who say retailers who had planned to spend \$1,000 on a PC seem to be more than willing to go up to \$1,800 or \$2,000 for extra features or brand-name reputation. "I've visited some Computer City stores, and was very pleased to see all sorts of customers carrying ProLineas out in shopping carts," he said. In other words, Santa should be stuffing a lot of new 486 PCs down chimneys this year—as well as through office doors.

By Catherine Arnold in New

OUT WITH A BANG?



JAMMED AISLES ON LONG ISLAND: FIRST-TIME BUYERS ARE BOLSTERING THE HOME-COMPUTER MARKET

buying boom not only among traditional corporate customers but also among consumers. The bargains, along with dozens of models geared to mass merchandisers, are making the home market the fastest-growing segment. Analyst Steven L. Eskenazi of Alex. Brown & Sons Inc. predicts a 25% increase in U.S. PCs sold to home and small-office buyers this year, to around 2 million units, compared with an overall industry increase of only 10%.

"Everybody's only worry at this point is that they can't get enough machines to meet demand," says Seymour Merrin,

constrained by a shortage of parts," says Edward Juge, director of marketing relations.

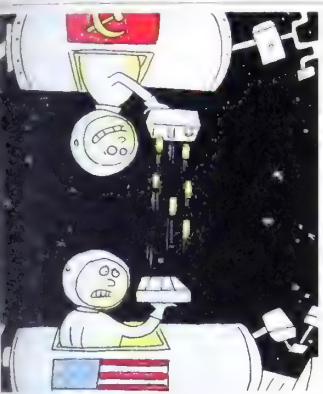
It's true that the fourth quarter is always the strongest for PC sales, thanks to corporate buyers using up their equipment budgets. But corporate sales are getting an additional boost this year because such top brands as IBM, Compaq, and Apple have started pushing lower-priced machines.

Business customers are also in the midst of a major upgrade to PCs based on Intel Corp.'s 80486 chip, which does a better job of handling the massive pro-

Developments to Watch

D BY WILLIAM D. MARBACH

MAKE A BETTER CRYSTAL, P ON A RUSSIAN SPACE LAB



Space laboratories have long been promoted as a boon to science and business. The near-weightlessness of orbit, NASA officials argue, is ideal for such tasks as processing materials—growing huge, pure crystals, for example. But payoffs have been elusive. After studying experiments done over the past decade on U.S. space shuttles and the Russian space station Mir, Gregory K. Farber, a Pennsylvania State University protein crystallographer, and co-workers report in *Nature* that only one-quarter of the crystallography experiments worked. And the crystals were slightly larger and purer than the ones grown down here. The scientists believe it's still worth trying new experiments to make crystals of substances that won't crystallize at all on Earth. But they suggest these tests should be done on Russia's space station rather than the \$40 billion U.S. space station due to be launched later this decade. "Mir is already up there—and it's," says Farber. "We can save ourselves a lot of money."

QUICKLY, FASTER-MOVING IMAGES FOR THE COMPUTER

Computers may be ferocious number-crunchers, but they can't match humans for eyesight. The simple task of spotting an object in a scene can take hours on a powerful desktop computer. On Dec. 1, researchers at the David Sarnoff Research Center in Princeton, N.J., unveiled a system that dramatically boosts the ability of computers to process images. "It really marks the beginning of a new era of real-time computer vision," boasts Sarnoff President James E. Carnes. The system—a combination of hardware and software—is the processing with a simple, low-resolution image. The way, it can home in on key features—such as a moving object or a person—without having to search through millions of pixels. "The key is to ignore extraneous detail," explains Sarnoff Vice-President Curtis R. Carlson. Sarnoff researchers are using such applications as reading X-rays, providing sight for factory-floor robots, and enabling PCs to handle real-time image processing. Sarnoff has formed a new company, Sensor, to bring the technology to market.

CHIPMAKING'S FUTURE MAY BE BUILT ON A BEAM OF LIGHT

Building computer chips is fraught with trade-offs. To make faster chips, engineers cram transistors closer together. But they're approaching the point where circuits will be so tightly packed that signals will interfere with each other. Scientists want to develop optoelectronic chips. These will use light pulses to carry signals—an advantage because light signals pass through each other with no interference. Researchers first tried combining silicon switches with tiny

laser diodes made of gallium arsenide. But the combination is extremely difficult to manufacture. Now, they're making startling breakthroughs using a better choice: silicon and germanium, a duo pioneered by IBM. Last summer, Princeton University Professor James C. Sturm made a silicon-germanium device that produced a faint beam of light—at room temperature, not the chilly -238F temperatures needed by most similar diodes. And University of Tokyo scientist Yasuhiro Shiraki recently built a silicon-germanium chip that emits a strong beam of light at room temperature.

Shiraki says it will take at least five years to commercialize chips with integrated electronic and optical functions. But the rewards could be fantastic. He envisions chips that are much faster than any on the drawing boards today.

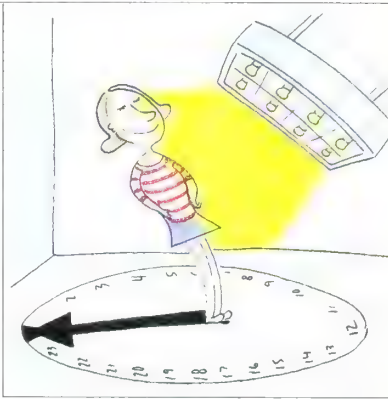
ZENITH'S DIGITAL SCHEME FOR CABLE TV

Digital technology promises to spark a revolution in the video world. The Federal Communications Commission is expected to choose a new technical standard next year that will lead to the supercrisp pictures and CD-quality sound of digital high-definition television. But even before HDTV arrives, cable operators are seeking ways to boost capacity on cable channels. Zenith Electronics Corp. has a scheme to increase cable capacity sharply, using a new transmission method for digitally compressed standard TV and HDTV.

Zenith's new modulation method will send 16 streams of digital data along a single cable channel. Depending on the degree of signal compression, cable operators will be able to cram in up to 23 movie channels, 9 live video channels, or 2 HDTV channels—vs. 1 show per channel today. Wayne C. Lulpow, Zenith vice-president for research and development, says the company is talking to cable operators and equipment makers to gauge their interest. He figures the system will be ready for commercial rollout in about two years.

WORKING THE GRAVEYARD SHIFT? GET A FEW HOURS OF LIGHT

For years, scientists at the Laboratory for Circadian & Sleep Disorders Medicine of Harvard University Medical School have been studying the effects of light on the human biological clock. The research shows that when normal sleep routines are disrupted, the body's clock can go haywire, leaving factory workers and other swing-shifters prone



to poor performance and accidents. Both the Three Mile Island and Chernobyl accidents, for example, occurred on the graveyard shift. Now, lab director Charles A. Czeisler and the university have patented a way to reset the body's clock forward or backward quickly—using precisely controlled exposure to bright lights.

To help power-plant workers adjust to night duty, for instance, Light Sciences Inc. in Braintree, Mass., which is commercializing the technology, installs a computer-controlled lighting system in a plant's control room. The technique is also helping prepare NASA's shuttle astronauts.

A STORM IS BREAKING DOWN ON THE FARM

The fight over gene-spliced food is about to explode as a rot-resistant tomato goes on sale next year

Sometime next year, the advance party of the long-delayed agricultural biotech revolution will march into grocery stores. It will arrive in wooden carts packed with tomatoes, each bearing a sticker proclaiming "MacGregor—Grown from Flavr Savr seeds." The product of eight years and \$20 million in research by Calgene Inc. in Davis, Calif., MacGregor tomatoes have been genetically engineered to retard rotting: They can be picked riper and should be redder and better-tasting than the pale, picked-green, and artificially ripened tomatoes stores carry except at harvest-time. If all goes well, predicts CEO Roger H. Salquist, Calgene will be selling \$500 million worth of MacGregors by the late 1990s. By then, they may have cleared a path for a dozen or so other new foods.

If all goes well is the tricky part. For one thing, MacGregors will cost perhaps twice what their natural cousins do in some markets now. But more than that, the Flavr Savr is touching off the most vigorous food fight since the one John Belushi started in the movie *Animal House*. Some consumer and environmental

activists, plus some growers and restaurateurs, view the tomato as a flagship they must sink, primarily by suggesting that its biotech origins make it inherently unsafe. There is no evidence of any health or safety threat from the Flavr Savr. But well-known ag biotech foe Jeremy Rifkin nonetheless vows to "pursue this product until it's dead in the water."

A WINDFALL? Such talk alarms the industry, whose future is riding on those tomato carts, too. Since 1986, the Agriculture Dept. has issued more than 300 permits for field tests on genetically engineered plants. All told, Monsanto, Ciba-Geigy, and Du Pont, plus such startups as Calgene, DNA Plant Technology, and Agritope, have invested more than \$1 billion in products that have yet to turn a penny of profit. On the list are a cornucopia of fruits and vegetables, from raspberries to peas, with improved shelf and shipping lives; modified

crops—such as corn, cotton, and beans—that resist pests and diseases and oils that may be cheaper and more nutritious and versatile than those on the market.

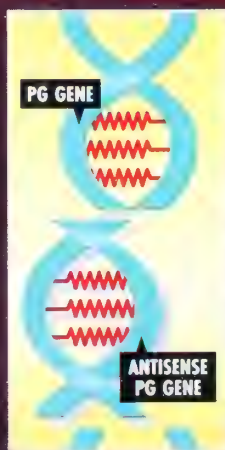
If consumers like the Flavr Savr, the momentum it generates could lead to a windfall: perhaps \$10 billion in sales of such products by 2000, and say, vs. the \$200 million worth of food ag products, such as biopesticides, that are on sale today. If the tomato bombs, the industry may wilt. "I am holding their breath," says S. Dryden, former CEO of Agrigenetics and now an industry consultant.

Investors top that list. When biotech ignited in the 1970s, ag markets were seen as potentially rich as medical. Gene-splicers hoped to create new crops, improve the taste and nutrition of staples, and fight world hunger (page 98). James McCamant, editor of *Ag Business Stock Letter*, estimates that investment bankrolled ag startups with \$500 million, and such giants as Monsanto,

Pont, and Ciba-Geigy have invested at least that much in research.

CREATING THE TASTY TOMATO

Tomatoes make an enzyme called polygalacturonase, or PG, that causes them to soften as they ripen. To avoid damage to the product during shipment to supermarkets, growers pick tomatoes when they are green and hard, then treat them with ethylene. That chemical, which normally makes tomatoes ripen on the vine, eventually turns them red. But they nonetheless remain pale, mushy, and relatively tasteless.



Calgene scientists prevent the tomato from producing PG. Here's how: They make an antisense, or mirror image version, of the gene that carries instructions for the enzyme. They then insert the antisense gene into the tomato's DNA, blocking production of PG. So, growers can wait until Calgene's Flavr Savrs start turning red before picking them. That gives natural ethylene time to fill the tomato with more flavor and texture.

gress has been slow, however. It's
er to genetically manipulate plants
still create a food that's safe than it
find novel, natural chemicals in the
to use as drugs. Federal funding of
research lags behind medical
ling, so companies had to finance
basic science. And ag biotech prod-
aren't all blockbusters: The U.S.
to-seed market is \$20 million, for
rice, while fresh tomatoes command
million at retail. One solution for ag
h companies is to contract with
ers, then sell the
produce, as Cal-
is doing. But that
res distribution and
eting savvy, which
time to build. To these
es add public concern. Usu-
"there's no question about ac-
ce" of a new drug, says Edward
bus, director of regulatory affairs
onsanto Co.'s Agricultural Plant
es Div. "But in food, acceptance is
to take time." Until recently, in
Washington has kept a tight
n ag biotech experiments.
no small part, that re-
the efforts of Rifkin, 47,
lent of the Foundation on
mic Trends in Washing-
D.C. An activist by trade,
poses ag biotech on philo-
sophical, religious, and scientific
grounds. He has hounded the industry,
lawsuits, lobbying Congress for
stricter regulations, and castigating bio-
companies as profit-seekers risk-
ing environmental mayhem.

GROUND. Rifkin has been most suc-
cessful in creating confusion about bio-
tech. Rather than address the
risks of individual products,
for example, he tars the
entire industry with
a case scenario
sketched about Flavr
Savr. He segues to a
warning that splicing animal genes
into plants, as some companies are
doing, violates natural law, could
offend vegetarians and Jews who
are kosher, and could transfer al-
lergens to new foods. Since
Flavr Savr has no animal genes,
it infuriates Salquist, who calls Rif-
kin a "slimebag." Responds Rifkin:
"I'm honest, aboveboard, and correct.
My attacks benefit no one."

Rifkin has recently lost ground with
regulators. In May, the Food & Drug
Administration said that it would hence-
forth treat genetically engineered foods
like other foods and not require spe-
cial testing or labeling—unless major
concerns have been made or foreign
regulations have been inserted in plants. Then
last October, the Agriculture Dept. said it
would require only notification, not per-

A MENU OF GENETICALLY ENGINEERED FOODS

COMPANIES INVOLVED
ADVANTAGES
DATE TO MARKET

TOMATOES

CALGENE, ICI AMERICAS,
MONSANTO, DNAP, AGRITOPÉ

Control ripening and spoilage

Calgene in 1993, others later

CORN

DEKALB, CIBA-GEIGY,
PIONEER, MONSANTO, CARGILL,
UPJOHN, CROP GENETICS

Resist insects, diseases, herbicides,
and other threats

1995

BST

MONSANTO, UPJOHN,
AMERICAN CYANAMID,
ELI LILLY

Growth hormone that makes
cows produce more milk

Waiting for approval

RASPBERRIES

AGRITOPÉ

Increased shelf life

1996

FOOD OILS

CALGENE, DU PONT,
DNAP, PIONEER HI-BRED

Cheaper substitute
for cocoa butter

1994

POTATOES

HYBRITECH,
FRITO-LAY

Resist pests, modified starch
content to improve frying

1999

mits, for most field trials, since the hun-
dreds so far haven't turned up environ-
mental threats.

Rifkin is still a potent force, however.
In the 1980s, he teamed with small dairy
farmers to beat back BST, a gene-
spliced hormone designed by Mon-
santo, Ciba-Geigy, and others to
make cows give more milk. The
farmers feared that BST would cause
milk surpluses, leading to a shakeout
that only large dairies could weather.
When Rifkin offered to advance their
agenda, they lent voice to his safety ob-
jections. Some large grocers boy-
cotted milk from BST-injected cattle,
and three states temporarily banned
it. BST is still on ice at the FDA, and its
prospects look grim. In late October,
in fact, Monsanto took a write-down of
the undisclosed value of its BST inven-
tories. In the wake of all this, says Rob-
ert T. Fraley, Monsanto's vice-president
for plant science, "we're prepared for
war" over genetically altered foods.

A BOYCOTT. Rifkin's strategy against
Flavr Savr seems to promise that. The
tomato has passed all safety tests and is
expected to get a special FDA endorse-
ment Calgene requested even though it
isn't required. Even so, Rifkin's "Pure
Food Campaign" is urging farmers, re-
tailers, shippers, and restaurants to boy-
cott the product, based on a simple argu-
ment: Americans have plenty of good
food available, so why take chances?
Even after the product goes on sale, he
vows to keep up his attacks.

For now, he has enlisted in his cam-
paign 1,500 U.S. chefs from such
posh eateries as New York's 21
Club and Water Club and Los
Angeles' Spago. "The greatest
fear a restaurateur has besides
a bad review is somebody get-
ting sick," says Joyce Goldstein,
owner and executive chef at San Fran-
cisco's Square One. If scientists are
wrong about safety, she says, "we're
in big trouble." California tomato
grower Joe Esformes sees a related
risk: Consumers who don't trust biotech
will quit buying tomatoes, period, unless
gene-spliced ones are clearly labeled.
"My family has been in this business for
65 years, and I'm not about to crawl in a
test tube with scientists," he says.

Even Calgene's partner on the Flavr
Savr, Campbell Soup Co., is ultracau-
tious. Campbell funded original research
on the tomato. The company still
retains marketing rights for fresh
tomatoes outside the U.S. and pro-
cessed tomatoes worldwide. But
James R. Kirk, senior vice-
president for R&D, says
Campbell won't use Flavr
Savrs unless they're first
popular with consumers. "We
are not jeopardizing this business," Kirk

adds. "We clearly have to show ourselves and the consumer what the benefits are to justify moving forward."

No wonder Salquist, 51, is running flat out. He has made more than 30 trips to Washington in the past year to meet with regulators, environmentalists, and the media. "The strategy from day one was to be open with everything," he says. Salquist has pleased regulators,

competitors, and even a few activist groups, notably the Environmental Defense Fund, by doing extensive safety tests and publishing the results. Says Robert Serenbetz, CEO of DNA Plant Technology Corp.: "Calgene's approach has led to definitive, reasonable guidelines from the FDA and USDA."

Calgene's true test lies with consumers, however. Most of them rank toma-

atoes last in any list of satisfactory produce. Mother Nature's tomatoes—"no legs"—don't ship well—says Barnes, produce manager for Soopers, a chain of 68 Colorado groceries. So, they're picked green—needing to be really ripe. Barnes thinks consumers will welcome a better-tasting tomato, and Calgene's market research says it can command a healthy premium

CAN BIOTECH PUT BREAD ON THIRD WORLD TABLES?

What distinguishes Florence M. Wambugu from the 950 other researchers at Monsanto Co.'s huge life-sciences technology campus west of St. Louis are the plants crowding the climate-controlled chamber in which she works. They aren't the genetically altered strains of corn, wheat, or cotton the chemical giant hopes will become blockbuster ag biotech products. Instead, the Kenyan virologist is probing the viral susceptibility of the sweet potato. It's a minor U.S. crop, "but in countries like Kenya, it's a staple or dietary supplement—a poor man's crop where up to 50% is lost to virus," says Wambugu. "When we use biotechnology on sweet potatoes, the improvement goes to poor people."

That's the promise and the curse of ag biotech as it applies to the Third World. Initially, advocates trumpeted biotech as a tool to fight hunger. But industrial countries do most research on their own lucrative cash crops. Staples of developing nations get scant attention, because they promise scant profit. Less than \$275 million has been spent on these in the past decade. And most of it has come from public or philanthropic sources.

Now, headway is finally being made. Gene mapping is leading to better rice. And Western companies, including Monsanto, Britain's Imperial Chemical Industries, and New Jersey-based DNA Plant Technology, have started programs—funded in part by international aid agencies—to train scientists such as Wambugu in ag biotech.

FEW GLADIATORS. The need is clear. The developing world, now 70% of earth's population, will make up 90% in a generation. The World Bank says Third World food production must double in 25 years to keep pace, and West-

ern hybrid crops and conventional farming probably can't do the job alone. Tapping biotech to increase yields or develop hardier crops could mean the difference between life or death in some poor nations by 2015.

Trouble is, most Third World nations have few biochemists and molecular biologists—the gladiators of crop engineering. Only 10 Third World nations have significant ag biotech programs.



RESEARCHER WAMBUGU: "REAL SECURITY ISN'T WEALTH, IT'S FOOD"

Industry won't fill the void. Most Third World countries can't afford to buy biotech products. And many don't give patent protection for Western gene discoveries or seed varieties.

That makes philanthropies and government bodies such as the U.S. Agency for International Development (AID) the purveyors of ag biotech. In the past decade, the World Bank and other public agencies have invested \$180 million in the effort. And since 1985, the Rockefeller Foundation has added \$50 million more. As a result, countries such as China and Thailand are making big gains in techniques needed to produce better rice strains. Biotech work on crops grown in Africa and other tropical countries is still paltry, however. "You could count the number of labs working on banana bio-

tech on one hand," says Rockefeller Foundation Associate Director Toenniessen.

There's also a lag in bringing research to market. To make that happen faster, AID has given contracts to the U.S. unit of Britain's ICI to develop insect-resistant corn for Indonesia, and to DNA Plant Technology to train Kenyan and Indonesian biotech companies in high-volume cloning of trans-

crops. Both efforts include training in the U.S. training for scientists from those countries. But the companies retain most of the royalties to any commercial products.

NO TIES. Wambugu's 1990 year stint at Monsanto, financed by the company and AID, aims to prepare her to introduce viral resistance into African sweet potatoes later this decade. Monsanto is waiving any royalties on sweet potatoes that result from Wambugu's work. AID expects her to help train other Kenyan researchers. "This means we're not tied down to [altering] sweet potatoes," says Cyrus G. Ndiritu, director of the Kenya Agricultural Research Institute, Wambugu's employer.

Transferring technology is only part of the solution. Better farming and distribution methods—often lacking in African nations—are needed to boost production of food and get it to hungry people. "Biotech will be an important tool, but it won't end world hunger," cautions John H. Dodds, managing director of the Agricultural Biotechnology for Sustainable Productivity Program at Michigan State University.

Still, for Wambugu, any progress is welcome. "Real security isn't wealth," she says, "it's food. Biotechnology can give security to poor farmers." In the end, that may be ag biotech's most important payoff.

By James E. Ellis in St. Louis

ember, this tomato may be better
most I can get," says one San
cisco chef, who nonetheless plans to
cott it. Salquist will try to calm con-
ers by flooding vegetable counters
pamphlets explaining the technol-
"We want people to know where
tomato comes from," he says.

otechnologically speaking, its ori-
are simple. Calgene scientists use
antisense" gene, or the mirror im-
of the gene that produces an en-
e called polygalacturonase, or PG,
h makes tomatoes rot. Inserting
gene in tomatoes stops production
3. The modification has been widely
ied, and Agriculture has found no
ence that Flavr Savr could become a
y weed or damage other crops. Nor
it show any higher level of toxins.
ch attributes spare the Flavr Savr
the most pointed attacks on bio-
s. An experiment at DNA Plant Tech-
gy, for example, inserts a flounder
gene into a tomato to let it better
stand freezing. Such a product will
ubtly prompt rigorous scrutiny
regulators.

other question about ag biotech is
her it fosters sustainable agricul-
as the industry claims—or doesn't,
tiffin and some environmentalists
nd. Sustainable agriculture seeks
develop planting, cultivation, pest
agement, and other nonchemical
iques that lead to environmentally
and more efficient farming. Bio-
companies claim that their products
in sync with this goal, especially
s that are genetically altered to re-
lisease and pests.

ON OR BUST? It's easy to see why
s a debate, however. Monsanto, for
ple, is working to make canola
s tolerant to the company's own
killer, Round-Up. That would let
ers spray just once, after the canola
ats. Currently, they must spray
e, before and after sprouting, with
different chemicals. One herbicide is
r than two, and the change would
farmers \$100 million in chemical
abor costs, Monsanto says. But crit-
as the National Wildlife Federa-
argue that no herbicides are best—
hat Monsanto is prolonging reliance
hemicals.

lgene doesn't have to deal with
issues right now. And William
hardt, director of the sustainable de-
ment program at the University of
ornia at Davis, says the Flavr Savr
s more sense as a product than BST
In fact, much will depend on how
mers like its taste. If that's up to
then genetically transformed corn,
oes, raspberries, and peas may not
r behind.

Joan O'C. Hamilton in San
cisco, with James E. Ellis in Chicago



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The Workplace

LABOR POLICY

GUARDED SMILES AT THE UNION HALL

Under Clinton, management's gains of the '80s are at risk

Through 12 years of Republican rule, Corporate America has largely had its way on a wide range of labor and workplace issues. But now, that's about to change. President-elect Bill Clinton is likely to adopt positions that employers have resisted on everything from family leave to the permanent replacement of strikers. Most observers expect management to keep the upper hand in dealings with employees. Still, many employers could face tougher bargaining over new labor contracts. They're also likely to find that government agencies will enforce labor, health, and safety laws more vigorously. In the long term, the biggest change could well come from Clinton's pledge to forge a European-style partnership among business, labor, and government.

One area affected first by the change in Administrations is likely to be bargaining. Many companies expect Congress to pass legislation banning permanent replacements in strikes, despite an anticipated filibuster by Senate Republicans. The bill has strong support in Congress and was only narrowly defeated in the Senate in October. It would end a practice whose legality the Supreme Court affirmed back in 1938—despite its apparent conflict with the nation's basic labor law.

MORE STRIKES? Global competition will continue to prompt companies to demand and win wage restraint. But if it becomes illegal to replace strikers permanently, employers won't be able to carry the day as easily as Caterpillar Inc. did last spring, when the United Auto Workers crumbled in the face of a threat to hire permanent replacements. In fact, Caterpillar may be among the first to be affected. It recently imposed a new contract on the UAW, which is free to strike

again and which still insists on demands that it failed to get in the month walkout. "Another strike would be a hell of a lot easier" to sustain if a bill passes, says John Paul Yarbrough, president of UAW Local 145, which represents Cat workers in Aurora, Ill.

Indeed, a ban on permanent replacements might bring the first big increase in strikes since the 1970s. Union members' growing fear of being replaced was one reason that work stoppages involving 1,000 or more workers fell

WHAT TO EXPECT FROM CLINTON ON LABOR POLICY

Congress may pass a bill Clinton will sign. Bush opposed banning permanent replacements in strikes. This would strengthen many unions' bargaining clout.

Clinton's other bill, by Bush, would grant up to 12 weeks of unpaid paid medical leave.



187 in 1980 to 40 last year. As wages decreased, union pay-and-benefit increases lagged behind nonunion ones most of the decade.

That has already begun to change. Swift factory productivity growth in the past decade has enabled union members who disproportionately work in manufacturing, to pull ahead of nonunion workers for the first time since 1973. Last year, wages and benefits rose 4.6% for union members, vs. 4.3% for nonunion workers, according to the Bureau of Labor Statistics. The gap has widened this year: Union compensation climbed 4.6% in the 12 months ended in September, vs. 3.1% for nonunion compensation. And if the economy picks up, a permanent ban could spur this trend. "striker-replacement law would certainly give labor more leverage," says W

olloway, vice-president for human
resources at NCR Corp.

Clinton is likely to change the balance
power on other workplace issues, too
(). Some employers say they expect
appointees to toughen up health and
agencies. They also anticipate a
aggressive National Labor Rela-
Board (NLRB), which enforces labor
and which has been dominated by
management Republicans since 1981.
s could make it harder for employ-
to fend off union organizing drives.
few experts believe that labor will
se its slide. In the 1970s, unions
ted some 7,000 representation elec-
a year. That figure dropped by half
e 1980s. Given the willingness of
anies to ship jobs overseas, it's un-
to rise much, even in a new politi-
mate. "I don't think labor will rep-
t a larger share [than its current
of the private-sector work force by
says Daniel J. B. Mitchell, a labor
mist at the University of California
s Angeles.

management resistance to unions may
be the biggest challenge from Clin-

Clinton may favor
a bill giving em-
ployees the right to
participate in work-
place safety inspec-
tions. His appoint-
tees are likely to
more vigorously
enforce safety laws

One campaign
pledge Clinton
may not move on
quickly is indexing
the \$4.25 an hour
minimum wage to
inflation. But he's
likely to support rais-
ing the minimum



promised high-skills strategy. The
ent-elect campaigned on the idea
companies must become more com-
e by boosting worker skills and
ying concepts such as teams and
r empowerment.

make that happen, Clinton has said
ne U.S. should emulate the Euro-
system, which involves a partner-
among business, labor, and govern-
As a model, he frequently cites
ny, whose training and apprentice
is are widely admired. Adopting a
approach in the U.S. would give
zed labor an opening to sell itself
key partner with management.
on's high-wage strategy may be a
e opportunity for unions," says
Marshall, formerly Jimmy Carter's
Secretary and now a Clinton ad-
nd leading theorist on the subject.

Still, it's unclear just how far Clinton
wants to go down the European path.
Organized labor plays a central role in
Germany, which has several laws man-
dating elected worker bodies called
works councils. The councils have seats
on company boards and significant input
in corporate decision-making. Marshall
and others close to Clinton argue that
such cooperation should occur in the
U.S. But most American companies be-
lieve unions are unnecessary for high-
performance systems. "Our teams work
well with unions, but they work well
without them, too," says the labor rela-
tions vice-president of a major oil compa-
ny. "To have good employee relations,
you don't need a union in between."

NO SURE BET. In any case, many unions
are skeptical of cooperative labor sys-
tems. Some believe management uses
them to avoid unions—or to co-opt union
members. Unions also worry that pursu-
ing cooperation may force them to down-
play demands for labor law changes,
which Congress narrowly defeated in
1978. Those would, for example, allow
workers to form unions simply by sign-

ing cards saying
they want one. The
AFL-CIO is loath to
deemphasize such
changes for coopera-
tive plans, which
some of its 88 mem-
ber unions don't
trust anyway. "This
is a part of the de-
bate that we are hav-
ing right now—
which way to go on
this issue" says
Thomas R. Donahue,
the AFL-CIO's secre-
tary-treasurer.

Clinton advisers
say one way to cir-
cumvent the resis-
tance might be with

a national commission formed to look at
how to spur a high-skills strategy. It
also might examine how unions fit into
this idea. "Clinton has talked a lot about
breaking down the Berlin Wall between
labor and management," says Derek N.
Shearer, a public policy professor at
Occidental College who heads the la-
bor-economics group on Clinton's tran-
sition team. "We're going to give him
several options on how to start doing
that."

Clinton has said repeatedly that he's
not a traditional Democrat who caters to
special interests. So he is unlikely to
grant unions most of their demands. But
if he can forge the business-labor part-
nership he has talked about, it could al-
ter labor relations as much as anything
a more traditional Democrat might do.

By Aaron Bernstein in New York

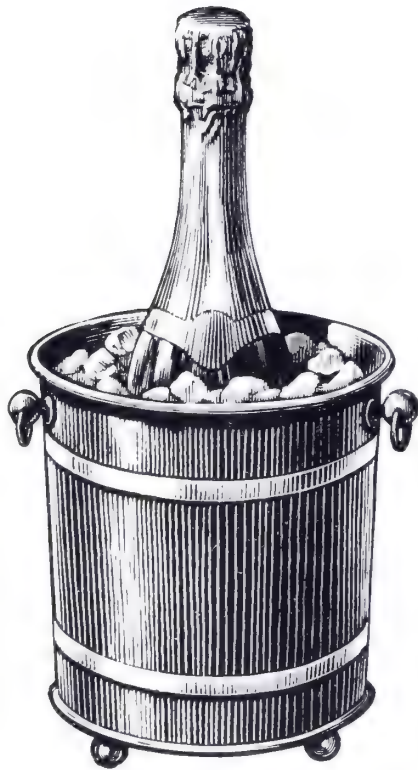


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Two years ago, Tracy Smith faced a dilemma. She wanted to take a management job at Homer Electric, a utility in tiny Homer, Alaska. But she also wanted to get an MBA, and Homer is five hours from the nearest university.

The Mind Extension University came to Smith's rescue. It's one of several outfits that offer long-distance learning via personal computer, satellite, or videocassette for busy adults who want to enhance their academic credentials. Homer Electric picked up two-thirds of the \$10,750 cost for tuition and books. And for two years, Smith spent every spare moment cracking the books and reviewing weekly videotapes of classroom discussions at Colorado State University. In May, she graduated with the rest of her class on the Fort Collins campus. "The only other option was to move and quit my job," Smith says.

With VCRs and PCs now in most modern households, more people are going for a high-tech education. Jeff Sun, director of the National Distance Learning Center, a federal clearinghouse (502 686 4556), estimates that 25,000 people nationwide are taking such college and postgraduate classes and that the number may be rising 20% a year.

CABLE U. Mind Extension University, launched in 1987 by Jones International, an Englewood (Colo.) telecommunications company, is one of the biggest distance-education providers. Through cable TV, satellite technology, computer modems, and phone calls, its accredited college and graduate degree programs are available to more than 18 million households. In addition to the MBA program from Colorado State, it offers a master's in education and human development from George Washington University in Wash-

Education

A COLLEGE DEGREE—VIA YOUR PC AND VCR

ington, D.C., costing \$8,270.

Many of the long-distance courses, which typically require 20 hours of study a week, are tailored for working professionals. Classes at the University of Phoenix, for

1976, offers long-distance master's degree programs in education, nursing, business, and organizational management.

The University of Phoenix gives

with students by P times a week. The other involves teleconferencing and electronic gadgetry to link professors with students who gather in groups at distant sites. Students fax papers and exams to professors. Tuition for programs, which typically take two years to complete, ranges from \$6,300 to \$10,000, depending on the cost of study and student's location.

The National Technological University, based in Fort Collins, offers 11 master's programs tailored for specialties such as engineering and hazardous waste management. The university transmits classes by satellite through digitally compressed video, which must be scrambled by special software that subscribers can lease, or rent. Individuals can't sign up themselves. They must enroll through their employers.

GREATEST HITS. All

graduates receive a diploma, the video classes come from various campuses, including Northern Arizona University, Rensselaer Polytechnic, and Colorado State. Professors and students communicate by phone or fax. An NTU master's class price tag of about \$14,000 takes between two and three years to complete.

In most cases so far, businesses have been the driving force behind the development of distance learning centers. They invest in and offset the tuition for such programs.

part of employee training. That's why arts offerings are more common than technical courses that can be done in a quick application for a job.

But distance learning curricula may change. Eventually schools may offer art history classes as well as MBA programs. Now, though, if you want to boost your productivity by getting an advanced degree in your specialty, distance learning is a good way to go. *Christina De*



instance, are taught by part-time faculty members recruited from such companies as Intel, Allied-Signal Aerospace, and Honeywell. The university, which was founded in

you two ways to receive courses. Instructors can download each week's lecture for students to retrieve by modem, and they can interact

A GUIDE TO DISTANCE LEARNING PROGRAMS

Program/Phone number	Description
BOISE STATE UNIVERSITY 800 824-7017; 208 385-1312	Offers MS in instructional and performance technology
CITY UNIVERSITY, BELLEVUE, WASH. 800 422-4898; 206 624-1688	Awards various master's degrees in business and public administration
MIND EXTENSION UNIVERSITY 800 777-MIND	Arranges MBA from Colorado State; master's in education from GWU
NATIONAL TECHNOLOGICAL UNIVERSITY 303 495-6400	Offers variety of master's degrees in technological studies
ROCHESTER INSTITUTE OF TECHN. 800 CALL-RIT; 716 475-6543	Videotape instruction for two MS degrees relating to software technology
UNIVERSITY OF MASSACHUSETTS AT AMHERST 413 545-0063	Delivers both MS and PhD courses in electrical and computer engineering

When 'Tis the Season to be Jolly

'Tis that time of year again. Dig out last year's holiday gift list from the back of the computer disc file, and give it a quick update. 'Tis the season when you must decide which of our customers and clients should receive presents.

As we begin these deliberations, a shadow of doubt lurks in the mind. Is all this hoopla during the holidays really necessary? Giving presents to business associates is a venerable custom, but does it serve a practical purpose? Recent studies indicate that these are widespread concerns. Of the estimated 64% of U.S. companies giving business gifts, less than half of them (only 30%) express any doubt that the practice helps build their business. Considering the fact that these companies spend more than \$1.5 billion annually on gifts, it seems they might want some proof that their investment is paying off.

Now at last an expert has concrete evidence to offer in favor of giving gifts to business clients. Dr. Richard F. Beltramini, associate professor of marketing at Arizona State University,

conducted field experiments in which half of his 1,500 subjects received business gifts and the others did not (reported in the *Journal of the Academy of Marketing Science*, Winter 1992). His findings show that giving a business gift actually does help to cement a rela-

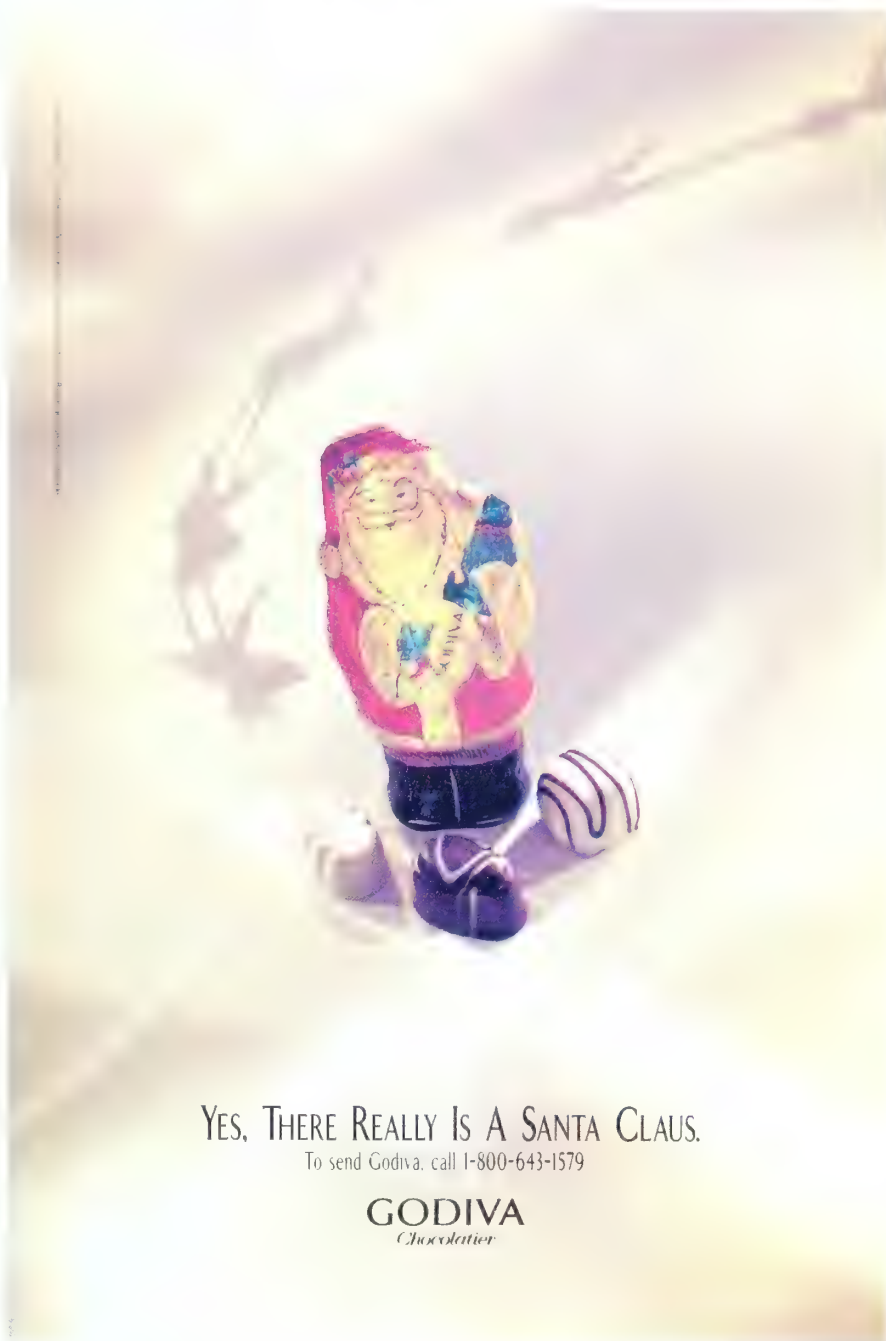
tionship with a client and create a favorable atmosphere for future discussions.

That doesn't mean that gifts work magic. For instance, the tests indicate that giving business gifts can't make over a corporate image. The customer's preconceived ideas about leadership in a given market or the competitiveness of a product line aren't changed by the arrival of a present. Also, Beltramini warns that gifts do not prove very effective in increasing business.

On the profitable side, gifts do appear to give clients an incentive not to use one's competitors. Also, customer evaluations of the gift-giver generally become more positive. Those two advantages can give a sales staff a valuable edge.

"In this sense, business gifts evidence an ability to work in con-

cert with the other elements of an organization's marketing communications program," Beltramini says. So, back to the gift list, and the very jolly rewards—both practical and emotional—that can come during the holidays from the simple act of giving. 🎁



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Commentary/by Peter Hong

IT'S TIME FOR THE FEDS TO STEP INTO THE RING

Although no one will ever confuse it with croquet, professional boxing seems to have made strides since 1962, when the late Sen. Kefauver launched a Senate study of a sport he called "infested by rascals and hoodlums." Some of boxing's more sordid figures are out of the picture. Convicted rapist Mike Tyson, whose quick hands made him a heavyweight in the ring and a role model outside it, is sitting in jail. And his manager and promoter, Don King, hasn't been heard from in a while. Riddick Bowe, the new undisputed heavyweight champ, seems as squeaky clean as a new pair of gloves. It doesn't seem like sucker-punching remains stuck in a Run-DMC time warp. Just as they were in the days of the Kefauver committee, the states still regulate the sport inconsistently, and promoters still lurk in the corners of the ring, undisturbed by the immature businesses that make profits from the sweet science. Not much has changed, in fact, so it's time for the feds to step in. Self-policing has been a failure. As Steve Farhood, editor of boxing bible, *The Ring*, points out, "What could the government do about boxing that it hasn't already done to itself?"

ALPHABET SOUP. It's hard to know where to begin listing boxing's problems. After all these years, the game still hasn't set up an authoritative governing body. Instead, an alphabet soup of sanctioning organizations still holds sway. The New York-based World Boxing Council, the Venezuela-based World Boxing Organization, and the International Boxing Federation, headquartered in New Jersey, are the three dominant bodies. Each issues its own ratings and is more concerned with advancing its interests than in setting up a credible system of challengers and champions. The sanctioning bodies have been more than willing to deny reality rather than lose a fight ticket. Consider the 1990 heavyweight title fight between Tyson and "Buster" Douglas. Tyson was knocked down and counted out, but President Jose Sulaiman didn't

want to lose a crowd-pleaser such as Tyson, so he refused to recognize the fight's result. Only public outrage persuaded Sulaiman to award Douglas the WBC title he earned in the ring.

More important than the integrity of ratings and championships, boxing's haphazard regulation threatens boxers' lives. In September, 1986, the Maryland State Athletic Commission suspended former WBC welterweight

other country, he would be less likely to find a willing promoter if the U.S. had deemed him unfit for the ring.

The commission could attempt to bring the three main sanctioning bodies under one umbrella organization. At the least, it could force them to negotiate every time one threatens to stage a fight that would result in, say, two middleweight titleholders. And with a federal agency investigating obvious

mismatches, the boxing organizations would be less quick to send a palooka out to battle a champ. Armed with subpoena power, the commission could also license referees and hold hearings anytime a fighter is robbed of a clear victory. It probably should stay out of the actual ranking of boxers, leaving that to the sportswriters.

MONEY LAUNDRY. Federal intervention could also address Kefauver's main concern—organized crime. Mobsters still fix fights or try to use bouts to launder money, according to Michael Franzese, an admitted former capo in the Colombo crime family. Franzese told a Senate panel in August: "Boxing will always hold an interest for organized crime, but organized crime figures are becoming increasingly reluctant to get involved in activities monitored by the federal government."

Senator William V. Roth (R-Del.) plans more hearings, and a bill to regulate the sport could follow. ESPN, Time-Warner, and other cable-TV interests that profit mightily from boxing would do well to get behind such legislation. For one thing, it's good business: Public cynicism and confusion about the sport keep the fan base down.

It's also the right thing to do. The TV outlets that feature boxing owe something to the fighters. The average fighter is an inner-city kid who's tossed aside when his talents are spent. If most boxers were white and middle-class, odds are that a fighters' union would have been formed by now to protect the athletes' interests. And maybe then, the lords of boxing wouldn't be so quick to forget their gladiators when they can no longer answer the bell.



BOWE AND HIS BELTS: AS CLEAN AS BOXING GETS

champion Wilfredo Benitez when a postbout medical examination found evidence that he was irreversibly punch-drunk. But just 10 weeks later, the cash-strapped Benitez fought in Argentina. He later fought in Canada, until authorities there questioned his fitness to fight.

A federal boxing commission could intercede to protect fighters such as Benitez from themselves. By maintaining a data base of fights and issuing a boxing "passport"—a record of up-to-date medical and fight history—a federal body could prevent an injured or unlicensed fighter from hopping state lines to fight. And while a desperate boxer could still seek out a bout in an

He Started A Revolution By Se



Test Wuit, founder and president of Gateway 2000, runs his high-tech business the old-fashioned way, with the midwestern friendliness you find in places like this cafe in Spink, South Dakota - population 14 - located just a few miles from Gateway's factory.

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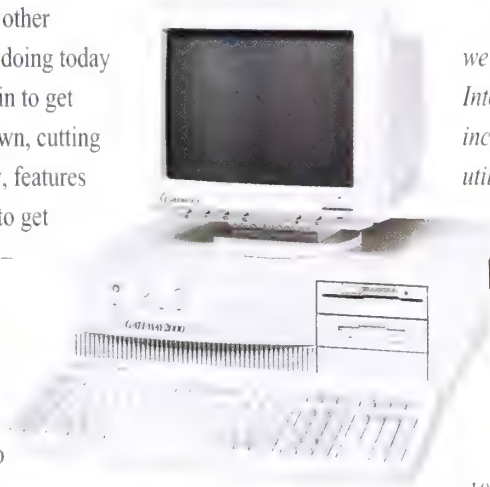
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This was Ted Waitt's business strategy when, seven years ago, he started a company called Gateway 2000. You'd hardly call it a radical plan, and yet the effects have been quite revolutionary. Gateway has grown, almost unnoticed, to exceed \$1 billion in annual revenue. The latest International Data Corp. research shows Gateway 2000 with a 3.6% share of the U.S. PC market, compared to Compaq with 3.5% and Dell with 2.1%. And Gateway has managed to do this while making better profits than any other company in the DOS-based PC market.

What you see other computer makers doing today – struggling in vain to get their overhead down, cutting corners on quality, features and performance to get their prices down – is a reaction to Gateway's phenomenal success. They know they have to change the way they do business to compete with the value Gateway 2000 offers.

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EDITED BY AMY DUNKIN

Finances

THE PERILS IN PICKING A PLANNER

Quick: Why is personal financial planning like easy-fit jeans and family vacations? Because it's being aggressively sold to baby boomers, whose sheer numbers and rising affluence promise a killing for providers. From mutual-fund marketers to out-of-work stockbrokers, self-styled experts want to help the boomers save for retirement, put the kids through college, and weave a safety net against emergencies. Whether or not you're a member of this generation, you'll do well to arm yourself with information against the onslaught.

Formerly a service aimed mostly at the wealthy, financial planning took off in the mid-1970s and 1980s. One big reason was the proliferation of investment products that caused consumers to seek guidance. Then came financial shocks: the 1986 tax bill, which wiped out dozens of deductions, and the 1987 stock market crash, which wiped out thousands of investors. Now, the shrinking of government and corporate benefits has scared many people into taking charge of their financial security. And few feel qualified to manage their money without professional assistance.

If you're shopping for a planner, the first thing you should know is that the industry is fraught with abuse. By some estimates, 50% to 90% of most financial planners' income is derived from undisclosed commissions on products sold to clients. "There's a poor flow of information," says John Markese,

president of the American Association of Individual Investors. Because the industry is only loosely regulated, a planner who advises you to buy, say, a variable-rate deferred annuity has no legal obligation to tell you that he or she may earn 3% to 5% of your premiums.

LOAD PUSHERS. That inherent conflict of interest exists whenever an adviser recommends a "load" product and gets a piece of the load. Insurance policies, real estate partnerships, securities, and mutual funds can all generate rich commissions. Furthermore, the riskier the investment, the bigger the seller's cut. So it's important to ask direct questions about how a planner is compensated before you sign up with one. If you know income is commission-based, ask for a written disclosure statement that describes how much the planner earns for each type of product sold.

Beware of the term "fee-based," which is not the same as "fee-only" compensation. Fee-based planners charge a flat sum for advice plus commissions, or fold the commissions into the up-front sum—like the wrap fees charged by big brokerage houses. Members of the National Association of Personal Financial Advisors are compensated on a fee-only basis, charging either a percentage of assets managed or a time-based flat rate. You can call the association (800-36-NAPFA) for names of fee-only planners in your area. The group also provides a free brochure with questions to ask, especially about dis-

closure, when interviewing potential planners.

But there's a problem with flat fees, too: They tend to be high, and it's hard to evaluate whether you're getting your money's worth. Averaging 2%-3% of your portfolio value, they make sense only if you do a lot of trading. And don't be fooled if a planner tells you that 3% is a good

The initials after an adviser's name may not mean much at all

deal on a portfolio that's returning 30%. "If you make 30%, it usually means you've accepted high risk," says Markese. "You should still demand lower expenses."

Some planners admit the difficulties with fee structures. "I've looked at them all," says George Finnegan, president of Hudson Financial Advisors in Ossining, N.Y., "and they all have pluses and minuses." Finnegan, a registered finan-

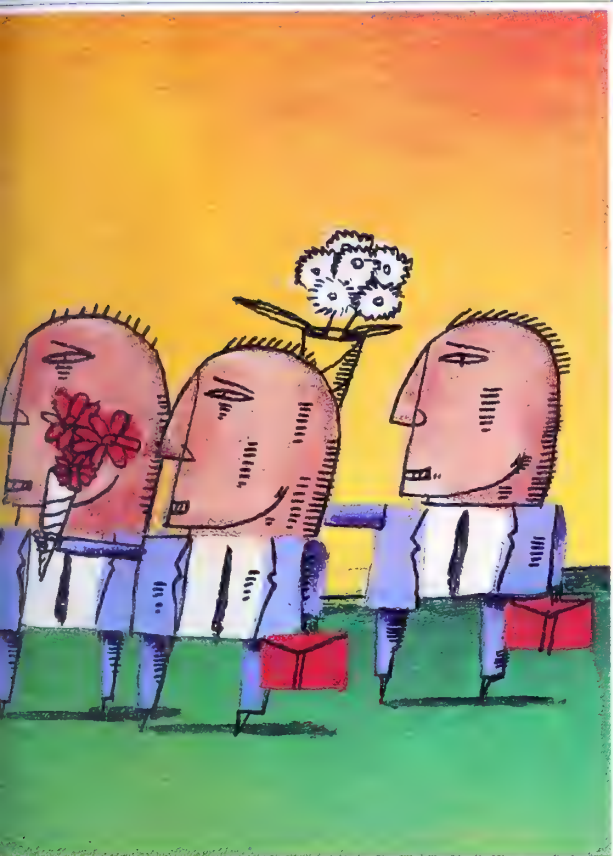
cial planner who specializes in retirement advice, favors what he calls the low-load approach: emphasizing investment in long-term products that generate only modest commissions.

BLOOPERS. Compensation is the only pitfall. Again, because of loose regulation, assessing a planner's credentials is next to impossible. Thunders after a so-called adviser, name may be more confusing than revealing. "Frankly, I don't think the initials mean a great deal," says Finnegan.

A number of professional organizations bestow different designations on financial planners of all stripes. Members of the Institute of Certified Financial Planners are who get licensed by a group called the International Board of Standards and Practices for Certified Financial Planners (IBCFP). Licensees must pass an exam, take continuing education, and have some professional experience.

But CFPs may also be licensed to sell insurance, real estate, or securities, and may be compensated ac-





to their specialties. "The designation isn't a guarantee of competence or ethics," says Barbara Roper, director of investor protection at the Investor Federation of America. She points out that many mistakes have been made in the teaching material at Denver's College for Financial Planning, which administers the two-year, \$2,000 curriculum for the CFP's education requirement. Roper: "That raises serious questions about the quality of training at what is acknowledged to be the 'backbone' for financial planners."

Roper adds that although the IBCFP has a code of ethics, its language on fiduciary duty is weak. The board recently reviewed its standards, and the results were disappointing. Instead of requiring full disclosure of compensation, either by dollar amount or percentages, the rules find it acceptable to charge a percentage of assets under management.

veal only very general information on commissions.

CFPs at least spend some time and money to earn their degrees. RFPs, or registered financial planners, can join the Registered Financial Planning Institute and get their designation after two years' experience in any field, from law to banking to accounting, and just 30 hours of accredited

course work. There's no restriction on how they are compensated. The International Association for Financial Planning is simply a trade organization. Virtually anyone can fill out an application, pay some dues, and put "member of IAFF" on the stationery.

BIG-NAME ABUSE. The initials to scrutinize are the ones that tip you off to a planner's real profession (table). For example, a registered investment adviser (RIA) has voluntarily registered with the Securities & Exchange Commission: He's a broker who wants to give overall financial advice. A chartered life underwriter (CLU) is a licensed insurance agent, regulated by a state insurance board.

If you don't understand a planner's credentials, do some homework. "You should check disciplinary history through a state regulator, even possibly check up on a few things like education and references," says Roper. And don't assume that because someone is affiliated with a well-known name, either on or off Wall Street, that you're in good hands. Some of the biggest arbitration awards to bilked investors have been paid by blue-blood brokerage houses.

Certified public accountants would seem to be the most benign of financial planners, as they traditionally work for hourly fees. But they are not immune to conflict of inter-

est. In some states, they are allowed to sell securities. Another problem is their conservatism. "Accountants lean so far over backwards to avoid risk that they often don't weigh potential reward," says Finnegan. Finally, keeping up with tax law is a time-intensive job, and not all CPAs are *au courant* with developments in other fields.

If all these caveats have persuaded you that the only financial planner you can trust is yourself, books and software abound to help you get started. Steer clear of self-help guides to instant riches. The best books are weighty, comprehensive tomes that offer worksheets on cradle-to-grave planning, plus individual chapters on stocks, bonds, insurance, real estate, and other investments. The best computer programs should let you key in a lot of variables—from your age and risk tolerance to your income and expected Social Security earnings—before it spits out its suggestions.

GRAPEVINE. Investing in such educational tools is worthwhile even if you hire a planner. "You have to know enough to recognize bad advice when you hear it," says Roper. "You can't relieve yourself of responsibility." That doesn't mean you have to study every newfangled financial instrument invented. But you should never take a recommendation you don't understand.

Word of mouth from someone you trust is probably the best way to find an honest planner. Your lawyer or accountant, or another professional with whom you have worked, can be a good source of names. High marks from someone you respect are worth more than all the accreditation in the world. And remember that a smart and ethical planner can come from any field. Finnegan, for example, used to edit magazine articles very much like this one.

MAY I SEE YOUR CREDENTIALS, PLEASE?

These initials after a planner's name...	...stand for...	...and mean the planner can...
CLU	Chartered life underwriter	Sell insurance products
CHFC	Chartered financial consultant	Sell insurance products, give advice
RIA	Registered investment adviser	Sell securities, give advice
APFS	Accredited personal financial specialist	Prepare tax returns, give advice
RFP	Registered financial planner	Be licensed to sell any number of products

Travel

WELCOME TO CLINTON COUNTRY

Poor Arkansas. Physically gorgeous, it has long been regarded as culturally backward. Locals have joked that the state motto should be "Thank God for Mississippi," the neighbor that keeps Arkansas from ranking 50th on just about every socio-economic index. But the hordes now swarming into Little Rock to learn more about their new President will be pleasantly surprised.

The state that gave birth to the Oxford-trained President-elect takes pride in its reputation for grittiness: The state animal is a feral hog known as a razorback. In the best American tradition, Arkansans see their chance and are taking it. The place called Hope—the Piney Woods hamlet where Clinton was born—may convert its train depot



Cuisine is Little Rock's weak suit. Doe's Eat Place offers big, juicy steaks. An Arkansas fan (above) sports the Razorback hog hat.

into a visitors' center. And Hot Springs, where Clinton grew up, has printed a brochure with a map of Clinton hangouts. Both sites are within two hours' drive southwest of Little Rock.

POWER BAR. Little Rock itself holds plenty of clues to the Clinton mystique. The State Capitol and 40-story headquarters of the TCBY yogurt empire dominate the skyline. There's the Governor's mansion (1800 Center St.), longtime home of Socks the Cat. At the opposite end of Center

Street, on West Markham, is the Old State House, the original 1836 Arkansas Capitol that now is a museum of state history. Next door on Markham Street is the ornate 115-year-old Capital Hotel. The restaurant and bar, a gathering place of Little Rock's lawyers and lobbyists, is not to be missed. Across the street is the Excelsior Hotel, in whose bar Jennifer Flowers claimed to have met Clinton on several occasions.

Don't miss Central High (14th and Park), from which

Governor Orval E. tried to bar black students in 1957. Nearby is Villa (1321 S. Scott St.), the Irish house whose owner Clinton pal and Hollywood producer Linda Blood Thomason uses in the comic *Designing Women*.

Food isn't Little's strong suit. But try Doe's Place (1023 Markham), where huge, juicy steaks—\$8 and up. They're proof that Arkansas is more than a patch, USA. *Doug H.*

A special breed of preferred stock is multiplying on Wall Street. And with CD and savings account rates painfully low, the shares have a certain appeal as high-yield investments. They can make sense for investors willing to sacrifice some potential price gains in exchange for fat dividends.

Companies from General Motors to RJR Nabisco have issued PERCS, or preferred equity redemption cumulative shares. There are now close to \$8 billion in PERCS outstanding, and most issues are large enough that it's easy to pick up shares in the secondary market. Like other preferred shares, PERCS are rated by the major rating agencies.

Here's how they work: A company issues preferred shares at the same price as its common. The shares pay a dividend significantly higher than that of the compa-

STOCKS THAT WEAR CAPS —AND PAY NIFTY DIVIDENDS

ny's common stock—if the company is paying common stock dividends at all. The PERCS have a so-called capped price premium, usually 30% to 40% over the price of the common.

At the end of three years, the issuing company ex-

changes the PERCS either for cash or more typically for common shares, at market price or the capped price, whichever is lower. If a company's common stock price is below the capped price, the investor can get one share for each PERCS. But above the capped price, the investor will get less than one common share per PERCS.

The dividends on the shares can provide some cushion against falling prices when a company gets into trouble. Westinghouse Electric, for one, issued PERCS when its common stock was at \$17. Westinghouse common was at \$12.63 last week, but its PERCS were at \$16.37.

SOME HIGH-PAYING PERCS

Issuer	Yield
TENNECO	9.50%
SEARS	8.72
CITICORP	8.25
RJR NABISCO	8.25
KMART	7.75

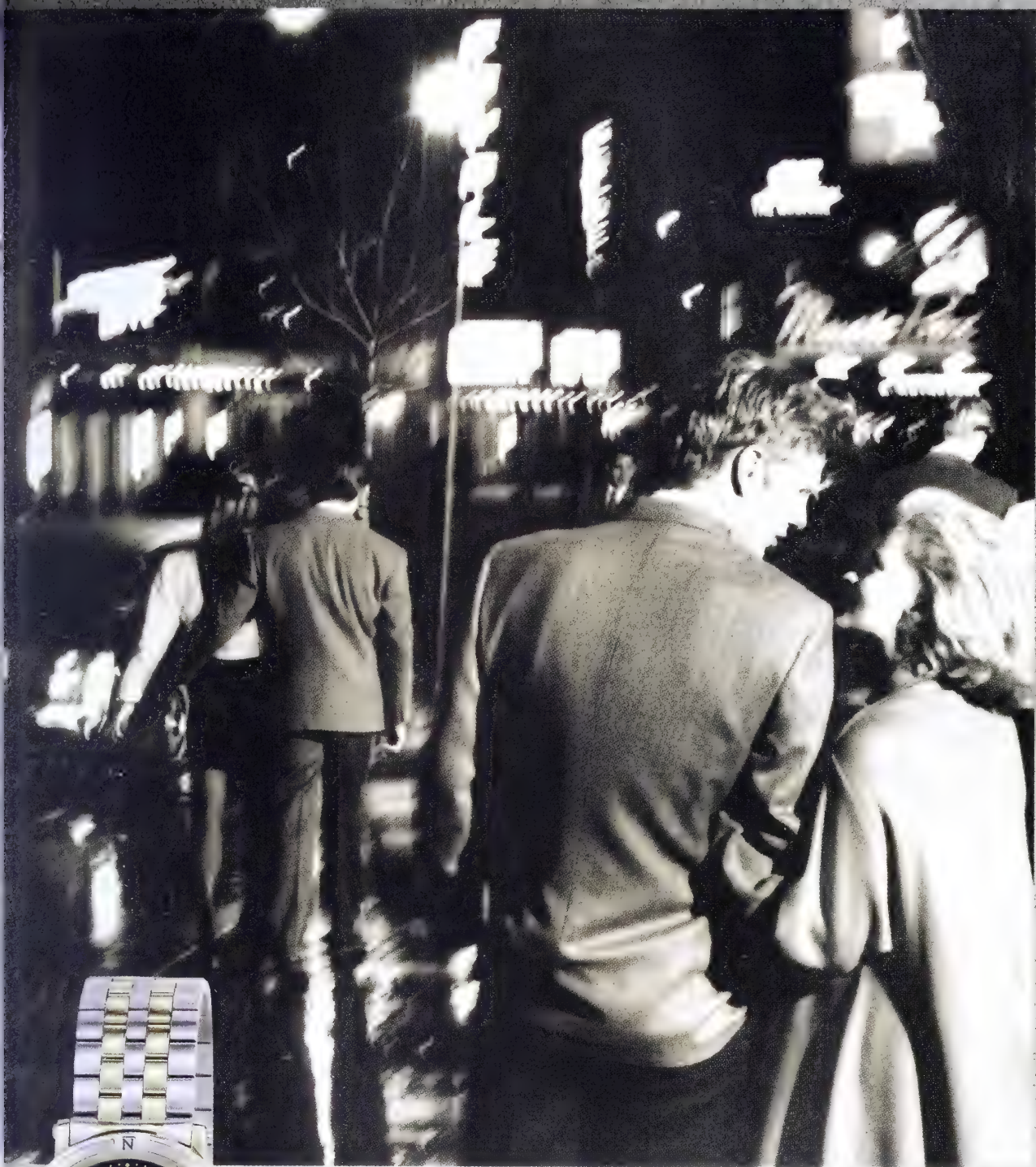
DATA: MORGAN STANLEY & CO

But PERCS holders to miss out on big gains if a company's common stock really takes off, because PERCS' appreciation is capped by the cap.

SAY WHEN. Citicorp's were issued at \$14.75, the same as its common stock that day. Since then, common shares have risen to \$19—but the PERCS are still around \$16.25.

"Investors should study common stock and look for companies with good growth possibilities," says Murphy, director of marketing at the National Association of Investors, a group of investment clubs and individual investors.

Murphy suggests an alternative: traditional convertible preferred stock converts into a number of common shares no matter what the common share price is. And you decide when. *Kelley H.*



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Autos

SLEEK, CHIC—STATION WAGONS?

Say "station wagon," and most driving enthusiasts stifle a yawn. But several auto makers hope to rehabilitate the cars' ho-hum reputation with a nimbler breed: sport wagons. These vehicles meld the utility of large cargo space with

gine, and standard automatic transmission launch the car with vigor. It romps to 60 miles per hour in just over 8 seconds—the fastest in the pack. And with full-time all-wheel-drive, it's also the most agile, even on slick pavement. In emergency maneuvers, the car inspires confidence with stable handling.

The Saturn, though less gutsy than the Subaru, still hits 60 mph in 6.5 seconds or so with a manual transmission. Its 123-horsepower four-cylinder gets raucous



BMW TOURING WAGON: IT STARTS AT \$39,800—THE PRICIEST OF THE LOT

the driving fun of a road-hugging sport sedan.

Sport wagons come in an ever-growing array of sizes and prices. The four models I drove cover the field pretty well. Two small wagons, the \$12,195 Saturn SW2 and the \$22,650 Subaru Legacy Touring Wagon, are great for active single folks and small families. The midsize BMW Touring wagon, which starts at \$39,800, and the \$38,600 Audi 100CS Quattro Wagon are geared more toward larger families who want a spiffier alternative to a minivan.

For sheer driving fun, the two smaller wagons stand out. Subaru's 160-horsepower, turbocharged four-cylinder en-

as it winds up, however. The front-drive Saturn has good road manners, too. It feels light and responsive through hard corners, but if you push too far, the front end begins to plow ahead. In fact, this is the one wagon whose performance closely matches that of its sedan sibling, thanks to a plastic roof that adds just 55 pounds to the car's weight.

The midsize wagons are tamer performers. The BMW, with a 189-horsepower six-cylinder and an automatic transmission, takes a more leisurely 10.5 seconds to reach 60 mph. That's nearly a second slower than the 525i sedan it's based on, largely because the wagon weighs 200 pounds

a buyer's guide to top radio models. It's \$19.95 from International Broadcasting, Box 300, Penn's Park, Pa. 18943.

■ **EYE-CATCHERS.** Want your business card to stand out from the clutter? Phase 4 offers transparent, holographic, 3-D, and other styles. For samples, send \$5 to Box 67, Mystic, Iowa 52574. A variety pack of 150 cards costs \$80.



SATURN SW2: THE \$12,195 FRONT-DRIVE WAGON HAS PLENTY OF PEP

more. Routine handling is nimble for a car this big. But in sudden maneuvers such as a panic lane change, the wagon's rear end wags.

■ **BIG STRETCH.** The Audi is the heaviest of the bunch. Its extra heft, plus the drag of a full-time four-wheel-drive system, exacts a toll in acceleration: Zero to 60 takes 11 seconds. But what it lacks in straight-line oomph, the Audi makes up for in the turns. As with the Subaru, four-wheel-drive makes the car corner as if it were on steel rails. That stability is a real advantage in snowy climates. The downside: The ride suffers a bit.

What does the extra

in the back that's suited for three children.

The BMW boasts a few features the other wagons lack. For instance, the BMW's big sunroof opens both the front and rear. The only drawback is noise when the front window is open. Also, you can't access the rear without opening the window glass by raising the entire window to accommodate large

Safety features abound on these wagons. All have standard driver's side air bags. The Audi has an optional passenger bag. Unfortunately, both the Subaru and BMW still have those annoyingly manual seat belts; BMW Audi use manual belts. Lock brakes are standard



AUDI 100CS QUATTRO WAGON: FOR \$38,600, A CAR NIMBLE ON THE TURN

cash buy on the bigger wagons? More room, comfort, and gadgets. The Audi and BMW accommodate about 10 more cubic feet of cargo than their smaller brethren. And they have extra headroom and legroom, while the Saturn and Subaru can feel cramped for people over 6 feet tall—especially in the backseat. You can also comfortably fit three adults in the rear of the larger wagons, which you can't in the compacts. The Audi even has a small folding bench seat

all but the Saturn, they are a \$600 option. BMW even automatically locks the interior lights and the doors after a collision to make it easier for passengers to exit.

Perhaps most important, at least for some people: cars' beefier tires, larger wheels, and sleek lines. They certainly stand out from the crowd of minivans parked in the streets of suburbia days. David W.

Worth Noting

■ **TUNING IN.** When CNN's not on your hotel room TV overseas, a portable shortwave radio can keep you informed—if you know which nations broadcast in English and when. The *Passport to World Band Radio* has schedules for stations in 170 countries, plus

Index to Companies

gives the starting page for a story or feature. Significant reference to a company. Most are indexed under their own names. Not listed only in tables are not included.

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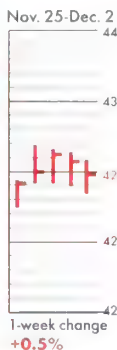
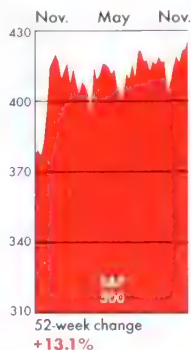
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Investment Figures of the Week

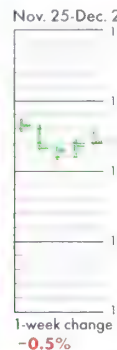
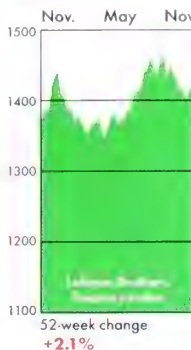
MARKET SUMMARY

Industrial average rose 3300 on Nov. 30, in a week-long rally. The strongest blue chips as traders wagered that the market was finally bottoming out. The market subsided the next two days, in a profit-taking. Small companies capped the broader average. The NASDAQ Composite climbed to a record high. The dollar declined, easing markets, Tokyo in particular outshone the U.S.

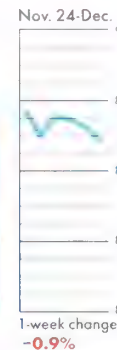
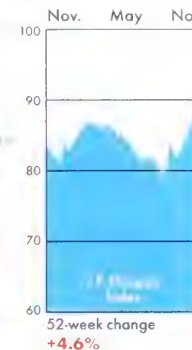
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
INDUSTRIALS	3286.3	1.2	12.9
COMPANIES (Russell 1000)	229.7	0.6	14.2
COMPANIES (Russell 2000)	214.2	1.6	20.5
COMPANIES (Russell 3000)	245.4	0.6	14.7

STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	2764.1	1.4	14.0
NIKKEI INDEX)	17,393.7	1.7	-23.3
(TSE COMPOSITE)	3265.3	0.2	-4.7

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.39%	3.29%	4.43%
30-YEAR TREASURY BOND YIELD	7.57%	7.54%	7.85%
S&P 500 DIVIDEND YIELD	2.88%	2.91%	3.22%
S&P 500 PRICE/EARNINGS RATIO	23.8	22.8	21.1

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	416.0	415.3	Positive
Stocks above 26-week moving average	57.8%	52.8%	Negative
Speculative sentiment: Put/call ratio	0.35	0.37	Neutral
Insider sentiment: Vickers sell/buy ratio	2.00	1.96	Positive

INDUSTRY GROUPS

WEEK LEADERS

	% change 4-week	% change 52-week
CARE SERVICES	13.8	32.9
INSURANCE AND LOANS	13.5	20.1
STRUCTURED HOUSING	11.6	38.1
TELEPHONE TIME	11.1	34.6
TELEPHONE TIME	10.8	27.0

WEEK LAGGARDS

	% change 4-week	% change 52-week
MINING	-13.1	-18.1
OIL AND GAS DRILLING	-6.7	26.7
EXPLORATION AND PRODUCTION	-6.0	-18.3
EQUIPMENT AND SERVICES	-6.0	1.4
NATURAL GAS DISTRIBUTION	-5.2	3.8

Strongest stock in group

	% change 4-week	% change 52-week	Price
MANOR CARE	16.6	77.2	23 3/4
H.F. AHMANSON	17.6	26.1	17 1/2
FLEETWOOD ENTERPRISES	12.8	41.2	44 1/8
USX-U.S. STEEL GROUP	19.7	19.1	30 3/8
BALLY MANUFACTURING	18.2	57.6	6 1/2

Weakest stock in group

	% change 4-week	% change 52-week	Price
NEWMONT MINING	-15.8	-4.6	38 3/4
ROWAN	-10.3	35.6	7 7/8
SANTA FE ENERGY RESOURCES	-12.2	-18.8	8 1/8
BAKER HUGHES	-15.0	-2.0	18 3/8
TRANSCO ENERGY	-13.3	-35.4	13

MUTUAL FUNDS

	%
total return	%
LANCOCK SPECIAL EQUITIES	14.9
ETH CENTURY GIFTTRUST INVESTORS	13.6
SON STEPHENS EMERGING GROWTH	12.8

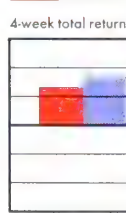
	%
total return	%
Y SELECT SAVINGS & LOAN	69.1
Y SELECT REGIONAL BANKS	57.3
Y SELECT FINANCIAL SERVICES	55.4

LAGGARDS

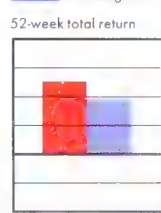
	%
Four-week total return	%
MONITREND GOLD	-14.7
BLANCHARD PRECIOUS METALS	-11.6
BENHAM GOLD EQUITIES INDEX	-11.4

	%
52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-63.3
VAN ECK INTERNATIONAL INVESTORS	-35.5
MONITREND GOLD	-33.4

S&P 500



Average fund



RELATIVE PORTFOLIOS

Investments
at the present
\$10,000
one year ago
portfolio

Results indicate
total returns

U.S. stocks
\$11,648
+1.33%

Treasury bonds
\$11,306
-0.26%

Money market fund
\$10,298
+0.05%

Foreign stocks
\$9,907
+1.65%

Gold
\$9,035
0.00%

This page is as of market close Wednesday, Dec. 2, 1992, unless otherwise indicated. Data include S&P 500 companies only; performance and share prices are as of market close.

Dec. 1. Mutual fund returns are as of Nov. 27. Relative portfolios are valued as of Dec. 1. A more detailed explanation of this page is available on request.

WHAT AMERICA NEEDS IS JOBS, JOBS, JOBS

As President-elect Clinton pieces together his plan for boosting America's long-run competitiveness, he faces two decisions—one easy, one hard. The easy decision, surprisingly, is what such a program should include. Most economists, of all ideological stripes, now agree with the main themes of the Clinton campaign: The U.S. needs more public and private investment, sustained investment in the so-called knowledge base—education and training, and a government-supported transition from defense-based research and development to commercially useful technology. No matter what else happens with the economy over the next six months, these long-run policies deserve the priority Clinton has already said they will receive.

But another, more controversial decision awaits Clinton as his inauguration approaches. Recent signs of strength, including a 3.9% growth rate in the third quarter, suggest that the economy is already on the mend. Given that strength, should Clinton shelve any short-term pump priming and let growth take its course? Considering the size of the deficit, which could approach \$350 billion in 1993, there is a lot to be said for that. But without some sort of boost, the job drought seems likely to continue. Economic growth needs to reach 3% for a sustained period to generate substantial numbers of new jobs—and that level may not be attainable without a helping hand from the new Administration. Private-sector employment has been flat for almost four years, while the working-age population has increased by some 4.5 million.

That's why we think Clinton should give the economy a short-run boost by accelerating spending on long-run programs, such as infrastructure or investment-tax credits. Front-loading his program would serve as an insurance policy for job creation by increasing growth in 1993. That risks a bigger budget deficit early on, so it must be coupled with a credible plan to reduce the current deficit over four years.

An early start to Clinton's long-run program would allay the very real fear that after a good quarter or two, growth could fade, just as it did last year. The U.S. economy has yet to shake off the forces—high levels of debt, a global slowdown, and corporate restructuring—that are holding it back. Indeed, companies such as Digital Equipment Corp. and American Airlines Inc. have announced new layoffs. There are signs of recovery. But there is no clear-cut evidence that, unaided, the U.S. economy can sustain the 3% growth needed for a significant long-term decline in unemployment.

LET STOCKHOLDERS KNOW WHAT THEY'RE BUYING

The recent fracas between Dell Computer Corp. and Kidder, Peabody & Co. has a moral: Important changes in the way a company does business need to be disclosed to investors as swiftly as possible. In the case of

Dell, an ill-fated flier in the foreign-currency market (see page 10), the Austin (Tex.) computer company became known only as a footnote to the company's second-quarter report acknowledged \$38 million in unrealized currency losses.

In other words, for some time, investors purchasing stock of the high-flying computer company were unwittingly investing in a company trading foreign-currency options more aggressively than they had reason to suspect. The company has reported that in its fiscal year ended February 1992, it sold currency options worth \$435 million—more than double the \$200 million it recorded in international sales that year.

At this writing, it isn't certain exactly how long Dell's aggressive activities lasted. But that's not the point that concerns us. What we have here is a disclosure issue. Under current law, management has too much latitude in deciding what must be disclosed and when. We believe that such a change in the company's operations was material—that it would make a difference to investors. Shareholders should have been told immediately about the decision. Though current law doesn't always require immediate disclosure—contemplated mergers or acquisitions—it should in a case as serious as this. Investors who want a piece of the currency play can invest in a bank or other investment institution. In this case—without disclosure—they got a piece of the currency play while thinking that they were investing in a computer company.

DON'T RAIN ON BIOTECH'S PARADE

Fruits and vegetables that can be picked ripe yet still are in stores sweet and fresh, more nutritious cooking staples such as corn and soybeans that can be grown without harmful chemicals: It's the harvest of more than a decade of intensive, costly R&D by pioneering entrepreneurial biotechnology firms and innovative giants, too. And it's about to arrive at supermarkets near you (page 98).

Some of the products, like the tasty tomato that Calgene Inc. is about to unveil, are simply new and improved versions of Mother Nature. Other genetic modifications are entirely new strategies for solving some of agriculture's basic problems, such as giving plants resistance to viruses that destroy 80% of crops in some areas of the country, or reducing farmers' reliance on dangerous pesticides.

But none of this is going to happen if vocal opponents of biotechnology stampede consumers away in advance of the products' arrival. The Food & Drug Administration and the Agriculture Dept. have been monitoring agricultural biotechnology for a decade. They've developed procedures to make sure new biofoods are safe, keep risky experiments in check, and still push this 21st century technology forward. The right strategy is to evaluate the products on their own, not redline the technology out of fear of the unknown. Let biotech pioneers in agriculture work on solving basic problems, improving nutrition, and honing the high-tech edge that the industry still retains in this revolutionary science. *Attack of the Killer Tomatoes* was a spoof, not a documentary.



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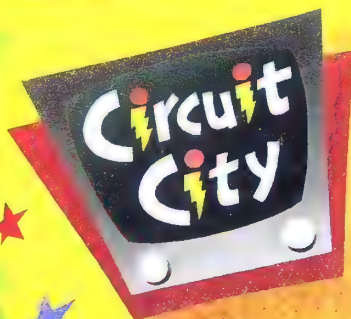
**HOW GIANT RETAILERS
ARE REVOLUTIONIZING
THE WAY CONSUMER
PRODUCTS ARE
BOUGHT AND SOLD.**

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Toys 'g' Us



HOME DEPOT



51

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Hype.

Saying bon voyage to your old spreadsheet is easier than you think.




 So maybe you'll find handling the business of a new spreadsheet better with the help of Windows. When it comes to spreadsheets, you'll find Windows a lot easier to use than Lotus.


 So the same old story can run its course. You want to know why I'm so in love with Microsoft Excel? Well, it's the spreadsheet that makes your spreadsheets better, not just another more complex, awkward thing. And how easy it is to use. I can do it all in one go. And I can do it all in one go. And I can do it all in one go.


 So the same old story can run its course. You want to know why I'm so in love with Microsoft Excel? Well, it's the spreadsheet that makes your spreadsheets better, not just another more complex, awkward thing. And how easy it is to use. I can do it all in one go. And I can do it all in one go. And I can do it all in one go.


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Facts.

The Microsoft ad on the left has a lot to say about their spreadsheet, Microsoft® Excel. It also has a lot to say about 1-2-3 spreadsheet, 1-2-3®. But before you believe their ad, let's set the fact from hype.

The truth is, Microsoft isn't giving you all the facts.

Microsoft claims that Excel will read and write all Lotus® 1-2-3 spreadsheet files and run your 1-2-3 macros unmodified.

Not true. Excel can't preserve 1-2-3 DOS formulas containing a 3D formula. It can't convert a number of WK3 files to Workbooks. It can't run 1-2-3 macros containing commands from releases dating back to Release 2.01. More hype? Their ad also tells you that a 1-2-3 user need not use a 1-2-3 command and Excel will show the equivalent command.

Wrong again. The fact is, Excel can't execute your familiar commands from releases 2.2, 2.3, 2.4 and 3.1. Try pressing /, Range, in Excel and guess what happens. Absolutely nothing.

The fact is, 1-2-3 for Windows offers the best transition from 1-2-3 for DOS. And complete compatibility.

If you're a 1-2-3 user, you've probably created and saved hundreds of 1-2-3 files, styles and macros. Face it, you'll certainly want to use them unmodified. Well, with 1-2-3 for Windows,™ you can. Because only 1-2-3 for Windows is able to read and execute every 1-2-3 for DOS file, style and macro. And only 1-2-3 for Windows—with its built-in Classic® Menu—lets you use your familiar 1-2-3 commands. What's more, only 1-2-3's 3D technology gives you easy access to 256 worksheets and lets you build true 3D formulas. In comparison, Excel's Workbook is a limited imitation of 3D. Try opening a large 1-2-3 3D file in Excel and see what happens. It might work. It might not.

Now ask yourself, why would a 1-2-3 for DOS user looking for the easiest way to move to Windows choose anything but 1-2-3 for Windows?

The fact is, the new 1-2-3 for Windows includes the most asked-for improvements.

The new release of 1-2-3 for Windows includes performance enhancements. For example, it's now the fastest Windows spreadsheet for printing on PostScript™ printers. We've also added over 25 innovative new features, usability enhancements and programming tools.

The result?

1-2-3 for Windows is now one of the most powerful and easy-to-use spreadsheets ever developed.

Unmatched database capabilities in a spreadsheet.

If you're a spreadsheet user who needs to access external databases, 1-2-3 for Windows remains unmatched—particularly if you need relational capabilities. Excel's data access capabilities, on the other hand, rest on a third-party product that offers limited relational capabilities. Which explains why *Corporate Computing* (August 1992) recently wrote that "for the experienced 1-2-3 database user, 1-2-3 for Windows with DataLens® is the front-end tool of choice."

Join millions of spreadsheet users who prefer Lotus.

Not only do more people prefer our product, but according to the ComputerWorld Spreadsheet Brand Preference Study, more people prefer our company. In fact, Lotus beat everybody (including Microsoft) for the awards of "best company to do business with" and the "company that offers the best service and support."

For more information, visit your Lotus Authorized Reseller or call us today for your free demo disk at **1-800-TRADEUP, ext. 7221.***

After all, it only makes sense to base your spreadsheet decision on facts rather than hype.

Lotus 1-2-3 for Windows



**You've seen this demonstration before,
but never for a \$13,000* car.**

The front wheels
are on a dynamometer.
Ten seven-inch glasses
have been placed on
its hood. The engine
starts. The wheels turn.
Quickly, the car reaches
speeds in excess of 100

mph. The glasses re-
main in place, perfectly
intact.** But all percep-
tions that a car has to
be expensive to be ex-
ceptional have been
completely shattered.

The new *Nissan*

Altima™ has just arrived,
and already automo-
tive history has been
made. A car that starts
at \$13,000* has just
passed the luxury
sedan entrance exam
for smoothness of ride.

Exactly how did we
make our new car do
what a \$40,000 car can?

It wasn't easy.
To begin with, we
bolted the engine to
the chassis with liquid-
filled engine mounts.

These mounts act
"cushions," significa-
cantly reducing vibration
and engine noise.
Next, we mounted
independent front
and rear suspension
to anti-vibration su-

Nissan Motor Corporation in U.S.A. Since, people always read the fine print. And they always wear their seat belts. *Manufacturer's suggested retail price for Nissan Altima SE. Excluding taxes, title, license, destination charges and options. Manufacturer's suggested retail price for test vehicle (XE model with automatic transmission) is \$13,000.



Simulation of actual test.

more freeway merging
power than a Mercedes-
Benz 190E 2.3**

Of course, we'd
like nothing better



than for you to test
our remarkable car for
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in touch with your
nearest Nissan Dealer.
We'll even send you
more detailed informa-
tion if you'd like.

Once you've ex-
perienced the new
Nissan Altima, we think
you'll agree, nothing
else will stack up.

es. Working in
on with four shock
rbers, the sub-
es serve as stabi-
s—keeping wheel
ation isolated from
body of the car.
As a result of our

efforts, the *Altima* is
one of the most impres-
sive Nissans ever built.
And, quite possibly, the
smoother running
\$13,000 car in the world.
Okay, you know
how well it performs

on a dynamometer,
but how does it do on
the road?
The *Nissan Altima's*
advanced suspension
system provides it with
an incredibly quick
steering response—en-

abling it to out-slalom
an Acura Legend L
Sedan. When equipped
with optional ABS, the
Altima can out-brake a
BMW 325i. And its
DOHC 150-horsepower
engine provides it with

*The New Nissan
Altima*



*It's time to expect
more from a car.™*

Based on independent tests conducted by AMCI. 1993 Nissan Altima XE or SE versus 1992 competitive vehicles. Merging power based on time and distance required to accelerate from 20-55 mph. Slalom comparison based on course completion time. Braking based on stopping distance from 50-0 mph on a wet road surface.



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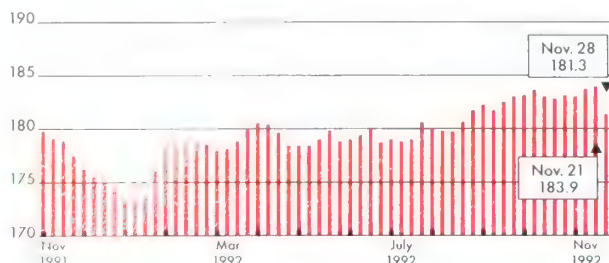
Channeling superstores' power
 Seasoned advisers—and fresh faces
 Hong Kong: A quick, quiet solution

BusinessWeek Index

PRODUCTION

Change from last week: -1.4%
Change from last year: 2.1%

1967=100 (four-week moving average)

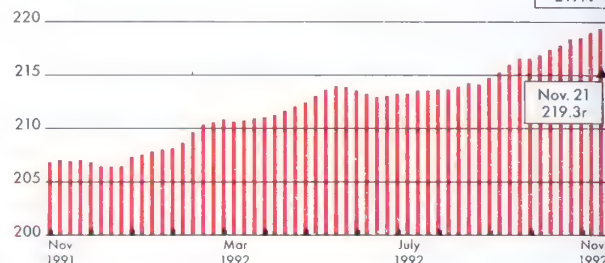


The production index fell in the week ended Nov. 28 because a later-than-usual Thanksgiving caused declines in the seasonally adjusted data. In particular, cars, trucks, coal, and rail-freight traffic output plunged. Electric power and crude-oil refining also declined. Steel, paperboard, and lumber output rose, and paper output was unchanged. Before calculation of the moving average, the index plummeted to 173.4, from 184.9. The index fell to 181.3 in November, from 183.1 in October.

BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: 0.0%
Change from last year: 5.9%



The leading index was unchanged during the week ended Nov. 28. High stock prices, improvement in the growth rate of materials prices, and a small drop in the number of business failures offset declines in the growth rates of real estate loans and M2. Bond yields were unchanged. Before calculation of the four-week moving average, the index stood at 219.1, from 219.6. For all of November, the index rose to 219.4, up from 218.1 in October.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (12/5)	1,686	1,761#	4.5
AUTOS (12/5)	134,039	79,413r#	8.3
TRUCKS (12/5)	94,861	57,805r#	17.7
ELECTRIC POWER (12/5)	58,521	54,091#	4.0
CRUDE-OIL REFINING (12/5)	13,625	13,580#	7.0
COAL (11/28)	15,704#	20,017	-0.3
PAPERBOARD (11/28)	829.2#	818.5r	2.6
PAPER (11/28)	791.0#	791.0r	2.2
LUMBER (11/28)	328.7#	488.6	9.0
RAIL FREIGHT (11/28)	17.3#	22.5	3.0

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (12/9)	124	124	129
GERMAN MARK (12/9)	1.57	1.57	1.58
BRITISH POUND (12/9)	1.57	1.55	1.81
FRENCH FRANC (12/9)	5.36	5.36	5.40
CANADIAN DOLLAR (12/9)	1.28	1.28	1.14
SWISS FRANC (12/9)	1.41	1.39	1.39
MEXICAN PESO (12/9)	3,100	3,100	3,059

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (12/9)	333.500	335.650	-6.8
STEEL SCRAP (12/8)	89.00	89.00	-4.3
FOODSTUFFS (12/7)	203.2	201.8	-1.2
COPPER (12/9)	101.0	100.5	-4.5
ALUM. (12/9)	54.9	54.0	10.0
WHEAT (12/9)	3.81	3.84	-3.5
COTTON (12/9)	51.85	50.73	-3.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/4)	430.80	427.63	1.0
CORPORATE BOND YIELD, Aaa (12/4)	8.06%	8.06%	-
INDUSTRIAL MATERIALS PRICES (12/4)	96.9	96.9	-
BUSINESS FAILURES (11/27)	390	396	-1.5
REAL ESTATE LOANS (11/25)	\$399.8	\$400.8r	-
MONEY SUPPLY, M2 (11/23)	\$3,441.5	\$3,449.3r	-
INITIAL CLAIMS, UNEMPLOYMENT (11/21)	362	374	-2.9

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Nov.)	181.3	183.1	-
BUSINESS WEEK LEADING INDEX (Nov.)	219.4	218.1r	-
EMPLOYMENT, CIVILIAN (Nov.)	118.0	117.6	-
UNEMPLOYMENT RATE, CIVILIAN (Nov.)	7.2%	7.4%	-

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/23)	\$1,014.6	\$1,023.2	-
BANKS' BUSINESS LOANS (11/25)	280.7	279.1r	-
FREE RESERVES (11/25)	1,226	660r	4.0
NONFINANCIAL COMMERCIAL PAPER (11/25)	149.9	150.0	-

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (12/8)	2.77%	3.17%	4.5
PRIME (12/9)	6.00	6.00	7.5
COMMERCIAL PAPER 3-MONTH (12/8)	3.74	3.89	4.0
CERTIFICATES OF DEPOSIT 3-MONTH (12/8)	3.56	3.79	4.7
EURODOLLAR 3-MONTH (12/5)	3.80	3.78	4.8

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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TAKING A SHOT AT RATING B-SCHOOLS

Regarding "The best B-schools" (Cover Story, Oct. 26), not only do we fault your basic assumption that all schools can be compared with one another, but we question the rating methods that you use. One of your dimensions of excellence relates to the responses from executives of the companies that hire our graduates. How can we accept opinions from managers of companies that may be marginal performers? What are the credentials of the respondents of each corporation surveyed? They may well be hiring the wrong people who cannot ensure that their companies will survive.

The second source of rating information that you use is based on student evaluations. How can a recent graduate make a judgment about curriculum within weeks after graduation? The skills learned in an MBA program have a long shelf life, and a good school provides the basic ingredients for lifelong learning.

Professor Kalyan Singhal
 University of Baltimore
 Professor Martin K. Starr
 Columbia University

Editor's note: Singhal is president and Starr is a board member of the Production & Operations Management Society, which is working to develop a system for benchmarking B-schools.

SCULLEY: 'NO BACKPEDALING' FROM THE GREAT DIGITAL HOPE

Your article "The great digital hope could be a heartbreaker" (Information Processing, Nov. 30) says "Sculley has backpedaled" from the vision of a digital world of handheld PDAs [personal digital assistants], and accuses me of prematurely hyping the market. I would like to respond that there was, and is, no backpedaling from the vision on my part.

A year ago, Apple was conspicuous by its absence in the hype from almost everyone else in the personal computer industry around the proposed coming of the pen-computer revolution, which the

pundits forecasted would be widely available by this fall. In January, 1992, I publicly stated that we at Apple thought pen computing wouldn't amount to much and were unfazed by the rush of companies that were then jumping on the bandwagon. I said at that time that we saw a far more important and exciting future centered on the convergence of digital-formatted information that could be widely shared over wireless digital networks using new classes of devices called PDAs, based on computer miniaturization and a new generation of intelligent software.

While PDAs might use pen input, this was not the big idea. The big idea was how telecommunications would be revolutionized in ways more significant than anything we have seen since the invention of the telephone. I said this was a vision that would begin in 1993 and become broadly available before the turn of the century.

We have not lost any of our enthusiasm for this vision. If anything, we are more confident that this new industry will turn out pretty much as we indicated last January and again later in May. I found it curious that you chose to talk mostly with computer companies rather than telecommunications corporations and content providers. We can only wonder what AT&T, Motorola, McCaw Cellular Communications, News Corp., or R.R. Donnelley & Sons might have had to say.

John Sculley, CEO
 Apple Computer Inc.
 Cupertino, Calif.

CHAOS THEORY COULD MAKE WALL STREET MORE MANAGEABLE

Your story confuses portfolio theory with capital-asset pricing theory ("Chaos hits Wall Street—the theory," Special Report, Nov. 2). Portfolio theory is the use of statistical tools to optimize the risk/return performance of a portfolio. It does not require nor does it assume rational investors and efficient markets. In fact, its most successful use has been in thinly traded foreign markets that typically are not considered efficient. If chaos theory proves useful, it will only provide additional statistical

BUSINESS WEEK
 DECEMBER 21, 1992 ***3298
 ISSN 0007-7135



Published weekly except for one combined January issue. McGraw-Hill Inc. Publisher, James H. McGraw-Hill, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Telex: 122900. Fax: (212) 512-1879. U.S. subscription price: \$49.95 per year (single copies: \$5.00). Single copies: \$2.50 each. Write for rate card in other countries. Subscriptions: (212) 512-2000. TDD: (212) 512-1579.

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Readers Report

tools that improve risk assessment, such as semivariance, lower partial moments and entropy. These measures assume a market that operates according to an adaptive feedback-information system without any efficiency assumptions, like chaos theory.

David Nawrocki, Ph.D.,
Professor of Finance,
Villanova University,
Villanova, PA

BOEING CLEARS THE AIR OVER GPA

I did not tell your reporter that I could lose volume discounts of up to 30%, as the story said ("Doubts about GPA's future may be more than Boeing," International Business, Nov. 30). I am certain that our customers would be delighted to get discounts of such magnitude on our products. But no one does.

In our interview, I did explain that a combination of down payments and progress payments, while the airplanes are being built, could average approximately 30% of the purchase price, with the remainder due on delivery. Since the actual numbers are negotiated with each customer, we do not relate this percentage to GPA specifically, or to any customer.

Richard R. Albright,
Executive Vice-President,
Boeing Commercial Airplane
Seattle, WA

COLT OFFERED RETIREES SEVERAL BENEFITS OPTIONS

Colt Industries (now Coltec Industries) did not walk away from its responsibilities to the retirees at its Midland (TX) plant, as implied in your story, "Retirees, your health plans look a bit peaky" (Personal Business, Nov. 30). Three options were offered and accepted. Retirees could:

- Receive payments from a trust to pay their benefits. In fact, a group of retirees continues to be covered under this trust.
- Receive a lump sum payment in lieu of further medical benefits.
- Receive enhanced pension benefits to pay for medical costs.

Michael G. DuPont,
Director of
Corporate Communications,
Coltec Industries Inc.,
New York, NY

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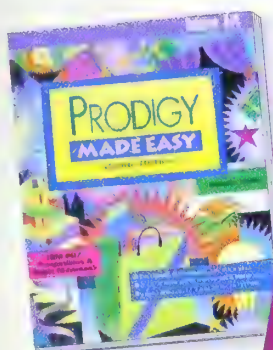
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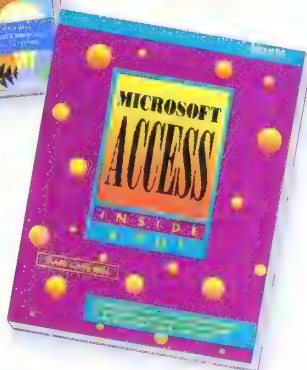
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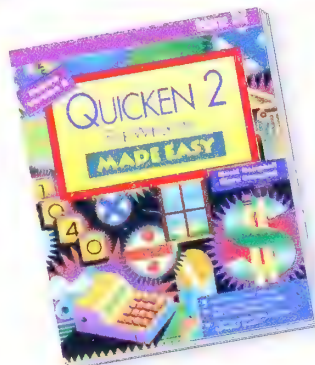
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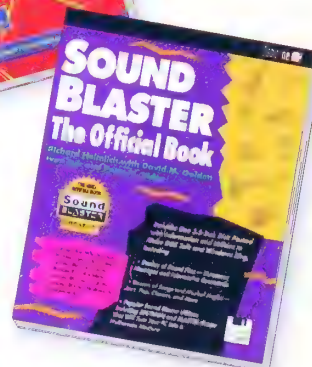
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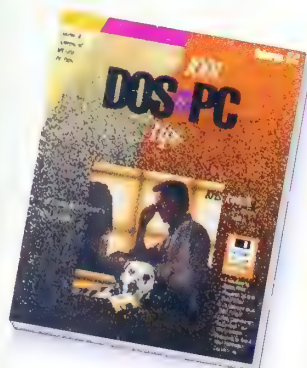
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THE BEST BUSINESS BOOKS OF THE YEAR

The office mailman stacks a small mountain of books outside my door virtually every day. Entreaties from authors and publicists pour in via mail and phone. The number of books submitted to BUSINESS WEEK for review is nearly overwhelming. And that's before we page through publishers' catalogs in search of the books we think our readers will need or want to know about.

Given our limited review space, some arbitrary constraints are applied. While we don't restrict ourselves to books on business—we also especially like politics, social issues, and science and technology—we only rarely review fiction.

And even among business books, we draw some lines. How-tos generally aren't our thing, be they how to beat the market, how to organize your time, or how to charm your boss. Those nitty-gritty, hands-on manufacturing guides, their titles laden with initials—TQM, TPM, SMED—unquestionably have their place. It just isn't here. Our prejudice is toward the business book that is a good read and of broad general interest. That can be a corporate saga, an analysis of an issue, an overview of an industry, a history, even the occasional lively reference book. From such works, we have selected the best business books of 1992.

Among the corporate tales BUSINESS WEEK reviewers liked best this year is Richard M. Clurman's account of the Time Warner merger, *To The End of Time: The Seduction and Conquest of a Media Empire* (Simon & Schuster). Clurman, a 25-year Time Inc. veteran and one-time chief of correspondents at *Time*, doesn't hide his bias. His love for the old Time Inc. and his contempt for Warner boss Steven J. Ross and all he has wrought permeate his book.

"Clurman's thesis is that Ross romanced Time into making what amounted to the deal of the century for Warner," served our reviewer, Media Editor Mark Landler. Time's executives and directors, as Clurman tells it, betrayed an astonishing lack of curiosity about Ross, with only 2 of 12 board members bothering to meet with him before signing off on the merger. Landler still honors for the book that plumbs the attributes that make Ross "a savvy dealmaker, media visionary, and everybody's favorite dinner partner." But Clurman's

account of the stop-and-go merger talks, enlivened by details gleaned from his many inside contacts, is engrossing. Here's the definitive account, so far, of this most fascinating of the '80s deals.

In *Merchants of Debt: KKR and the Mortgaging of American Business* (Basic Books), George Anders of *The Wall Street Journal* explores not just Kohlberg Kravis Roberts & Co. but also the impact of the leveraged buyout deals it popularized. Reviewer Anthony Bianco found the book well-researched, fair-minded, and thorough in its history of transactions.

Discussing the \$26.4 billion buyout of RJR Nabisco Inc., "Anders goes beyond what has been previously published," Bianco wrote, with his convincing assertion that RJR's post-deal crises pushed KKR close to ruin. Leveraged buyouts in general Anders terms "one of the most profoundly undemocratic ventures the United States had ever seen." Their only lasting impact, he says, was to shift wealth from the mass of corporate employees to a managerial elite allied with Wall Street.

Bianco faulted Anders for shying from sharp judgments and for failing to delve deeply into the motivations and character of KKR's dealmakers. But Anders won unparalleled access to Henry Kravis and his cousin and partner, George Roberts, Bianco noted. Crediting Anders with "devastating reportage," Bianco said, "His exhaustively researched book provides the

closest look yet at KKR's inner workings."

James Grant endeavored to put such phenomena as LBOs and junk bonds in historical context in his *Money of the Mind: Borrowing and Lending in America from the Civil War to Michael Milken* (Doubleday). Grant, editor of *Grant's Interest Rate Observer*, shows that the recklessness of the decade "was not aberrant behavior but part of a tradition hailing back a century or more," observed sociate Editor Jeffrey M. Laderman in his view. Grant sees the excesses of the '80s as a manifestation of a market in credit. Speculative markets occur periodically, he says, and inevitably lead to borrowing for ever more speculative purposes.

Grant documents how, since the mid-19th century, successive generations of lenders and investors have tripped themselves up. He does not neglect government's influence. The "democratization of credit" has gone too far, he argues, when anyone can get a credit card to vanquish debts through a bankruptcy proceeding, and run up debt anew. He also attacks the "socialization of risk," arguing that general deposit insurance has made depositors' different to banks' financial health.

The normally witty Grant has researched this material so painstakingly and documented it so meticulously that

book can be hard to read, Laderman said. But in the chapters covering recent times, the pace picks up. *Money of the Mind*, Laderman concluded, "should be required reading for bankers and investors."

A superb business history is *Homestead: The Glory and Tragedy of an American Steel Town* (Times Books,

1992

BASEBALL AND BILLIONS

A Probing Look Inside the Big Business of Our National Pastime
By Andrew Zimbalist

HOMESTEAD

The Glory and Tragedy of an American Steel Town
By William Serrin

MERCHANTS OF DEBT

KKR and the Mortgaging of American Business
By George Anders

MONEY OF THE MIND

Borrowing and Lending in America from the Civil War to Michael Milken
By James Grant

THE NEW PALGRAVE DICTIONARY OF MONEY AND FINANCE

Edited by Peter Newman, Murray Milgate, and John Eatwell

THE OVERWORKED AMERICAN

The Unexpected Decline of Leisure
By Juliet B. Schor

THINKING FOR A LIVING

Education and the Wealth of Nations
By Ray Marshall and Marc Tucker

TO THE END OF TIME

The Seduction and Conquest of a Media Empire
By Richard M. Clurman

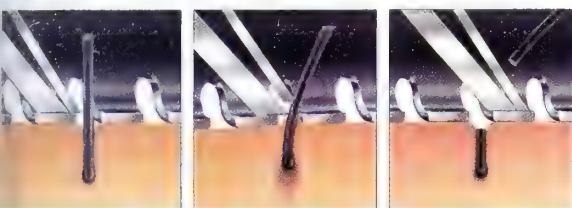
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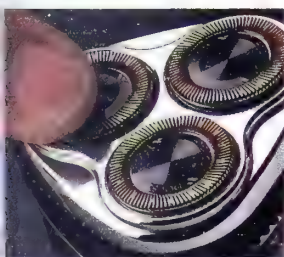


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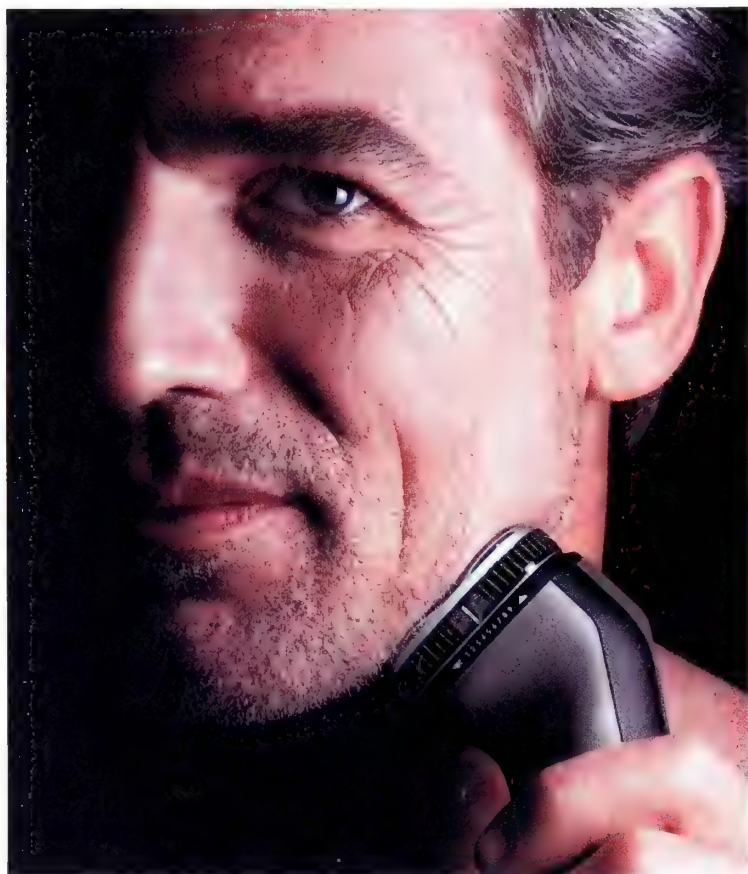
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Books

William Serrin, a former labor writer for *The New York Times*. Ostensibly, it's the tale of Homestead, Pa., home of the famous mill that made steel for the Empire State Building and World War II battleships, and one of the many towns outside Pittsburgh that thrived and died with the U.S. steel industry. But the book is more than that, wrote our reviewer, Hardy Green: "Serrin's nostalgic history of Homestead is wrapped around an account of the making of U.S. Steel Corp. and its partner in production, the United Steelworkers of America. Indeed, the vivid depiction of the growth of the company and the union—and the comfort and complacency that undid them—is Serrin's real achievement."

While many of the anecdotes comprising that larger story have been told before, Serrin relates them with fresh detail and drama. He also draws compelling biographies of U.S. Steel's successive chieftains, including Andrew Carnegie, and their varying approaches to industrial relations:

By the 1950s and '60s, as Serrin tells it, company and union leaders alike were mired in self-indulgence, and workers were following suit. Innovation was ignored, quality suffered, waste was huge,

and pay was high. The mills closed and were dismantled in the late 1980s, and U.S. Steel is now USX Corp. Here's why Homestead is becoming a ghost town.

There's history, too, in *Baseball and Billions: A Probing Look Inside the Big Business of Our National Pastime* by Smith College economics Professor Andrew Zimbalist (Basic Books). But more impressive than the overview that opens the book is Zimbalist's discussion of baseball economics. "Although owners and officials in Major League Baseball's central office treat their financial statements like state secrets, Zimbalist has gathered hard data on stadium revenues, local TV deals, and merchandising money," wrote Sports Business Editor Harris Collingwood. "What he discovered is eye-popping." Example: Average team revenues went from \$5.7 million a year in 1970 to \$58 million in 1991.

Zimbalist manages a coherent, convincing discussion of profitability, said Collingwood, despite owners' tendency to post sorry results even in banner years—in part to turn public opinion against highly paid players. "What Zimbalist's book demonstrates is that owners' greed, pettiness, and arrogance have featured prominently in the sport's

landscape almost as long as pitched duels and well-turned double plays."

The Japanese—their culture and their business practices—remained a prominent theme in business books through 1992. (And not just business books: That was the year of Michael Crichton's markedly polemical thriller, *Rising Sun*.) The competitive threat posed by Germany appears to be gaining ground as a topic. One of the year's best books blends these concerns and explores an increasingly popular notion that the U.S. is at a disadvantage in its competition with these and other global rivals because the U.S. approach to education and worker training is inferior.

Global competition requires quality service, and speed, observe former Labor Secretary Ray Marshall and this tanker Marc Tucker in *Thinking for Living: Education and the Wealth of Nations* (Basic Books). Workers at the point of production must be able to think and act for themselves. But the U.S. failed to develop a coherent high-skill strategy, as have Germany and Japan. Our frontline workers, the authors say, "may be the least skilled among those in all major industrial countries."

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Marshall and Tucker call for a national employment and training board to set road labor-market policies. Local boards would adapt these policies and build training, apprenticeship, and employment systems around community colleges and vocational schools.

Workplace Editor Aaron Bernstein judges this the best book yet on the educational aspect of global competition. President-elect Bill Clinton drew many of his training-program ideas from theories espoused by Marshall and Tucker.

The Overworked American: The Unexpected Decline of Leisure, by Juliet B. Schor (Basic Books), takes up another issue involving the U.S. labor force. Schor, an economics professor at Harvard University, says that, contrary to expectations, and reversing a century-long trend, the average American works more hours today than 20 years ago. Looking at patterns in both housework and paid work, she concludes that hours have grown by the equivalent of one month per year. "Other writers have sounded the theme of an increasingly hurried population—and some have distorted it," noted reviewer Troy Segal, *BUSINESS WEEK*'s social issues editor. But Schor... backs it up in effectively empirical—and alarming—terms."

Schor blames the work crunch on

Bill Clinton drew on many of the ideas espoused in *Thinking for a Living*, such as apprentice programs

technology, which has increased expectations about what we can produce; employers' strong preference for longer hours; the addictive nature of consumption, which traps people in a work-and-spend cycle; and tough economic times.

Schor calls for giving white-collar workers a defined workday and paying them overtime—if not in the form of money, then in extra hours or days off. Her statistical analysis, which comes early, is heavy going, said Segal. "But bear with it: *The Overworked American*

becomes a fascinating blend of social observation and economic theory."

Rounding out our choices of the year's best business books is a reference work of extraordinary proportions. *The New Palgrave Dictionary of Money and Finance*, edited by Peter Newman, Murray Milgate, and John Eatwell (Stockton Press), is a business buff's bonanza. Just published, and not previously reviewed here, it's more an encyclopedia than a dictionary in the conventional sense. Its three volumes contain 1,008 articles by 803 distinguished authors including economists, journalists, and working executives. The entries range from "risk" and "float" to "vector autoregression methods" and "Arrow-Debreu model of general equilibrium." This monumental work is descended from the famous *Dictionary of Political Economy* edited by R. H. Inglis Palgrave and first published in 1894. According to Senior Editor Chris Welles, it neatly balances theory with practice, opinion with fact, and history with topicality—though some essays on such market-related topics as junk bonds are already verging on obsolescence. At \$595, *The New Palgrave* is no steal. But you just might decide you can't live without it.

BY DENISE DEMONG

Demong edits the Books section.

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Pick up a paper and you'll no doubt read about another PC company on the brink of collapse. Does it matter? Not much. Unless you're stuck with a computer that's out of commission from a company that's out of business.

In the 80's, it seemed every time you turned around a new computer company opened up. For a while it looked like all you needed was a soldering iron, a toll-free phone number and a P.O. Box to get started.

Those days are over. The market has matured. Customers are demanding more. And clone companies are faced with an ugly reality: the less you know about making computers,



the less likely you're going to be successful at it.

Writers in the press and financial analysts on Wall Street are even compiling lists as to which are about to go under. While all of these involve an amount of speculation on the part of their authors, you may

be surprised to learn many of the larger clone companies appear on the majority of them.

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CLINTON HAS TO ZERO IN ON THE GLOBAL ECONOMY

BY ROBERT KUTTNER



A huge international recovery program is needed, and only the U.S. can provide the leadership. But we must avoid injecting simplistic laissez-faire into former command economies. That will produce only chaos

It's time to change that famous sign on the wall of Clinton headquarters to read: "The international economy, stupid." While much of the economic debate between now and Jan. 20 will properly center on domestic issues—how much fiscal stimulus and what kind, how much deficit reduction and how fast—the deeper economic crisis that will confront the new President will be international.

The world's other great economic powers are now suffering from slow growth and political frustration. Every other member of the Group of Seven—Germany, Japan, France, Britain, Italy, and Canada—has a weakened government and no capacity for economic leadership. Germany, once the steward of European union, is today consumed with Eastern woes and racist ghosts. High German interest rates have all but wrecked the European Monetary System.

For a decade, the EMS was a mini-Bretton Woods system of relatively stable currencies on one continent and the logical precursor to a single European currency. If European currencies held value relative to each other, that made it easier for entrepreneurs to treat the Continent as a single market. But the abolition of capital controls prior to the completion of monetary union, coupled with Germany's bout of introversion and tight money, has invited speculation, depressed investment, and derailed the whole system. French anxiety about unmanaged agriculture, meanwhile, is spoiling the General Agreement on Tariffs & Trade, and Britain's decrepit Tory Cabinet can't govern.

HARD STRADDLE. As for Japan, its postwar political system is unraveling, and with it the Japanese economic miracle. The Japanese, who long benefited from a highly managed economy, have been pushed halfway toward a free-market economy. But they can't bring themselves to go all the way, and the straddle is becoming unbearable. Their stock market, buoyed by limited trading and artificially depressed interest rates, has been tumbling as rates move upward to global levels and investors act more like speculators. But since so much of Japan's wealth has been based on inflated stock and land prices, the government can't quite let the market rule. Exports have long been Japan's safety valve, but with slow global growth, that release is ending.

The former Soviet Union is, of course, an economic catastrophe. So are most of its former satellites. The Bush Administration took full—some would say fulsome—credit for the collapse of Bolshevism but then turned its back on the economic aftermath. With the end of totalitarianism, ethnic hatreds in the Bal-

kans and elsewhere would have risen anyway, but economic depression makes them much more intense. Neo-Nazism, likewise, is a risk in Eastern Germany, but 30% unemployment, coupled with a flow of economic refugees, fans the flames.

What's needed is a massive global recovery program—one that only American leaders can provide. Still, while privatization can help shake loose the cobwebs of former command economies, simplistic laissez-faire will produce only chaos. The Clinton Administration should study the contrast between the postwar periods of World Wars I and II. In the first case, the U.S. withdrew and the global economy spun into depression, financial chaos, and another war. In the second case, having learned from history, having embraced economic management, and worried about the Red Army, the U.S. moved boldly. The result was a quarter century of stability and prosperity.

BOLD PLAN. For starters, the Clinton Administration should revive the G-7. Under Treasury Secretary James A. Baker, the G-7 mechanism made a promising start, enlisting major economies to pull in the same direction. After Baker left Treasury in 1988, the G-7 languished. Clinton needs to revive it to win a joint commitment for currency management, lower interest rates, and sustained growth.

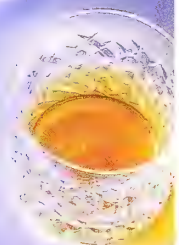
Second, the new Administration should sponsor a Western commitment—of Marshall Plan proportions—to recovery in the former communist world. Only if the West puts serious resources on the table will the East begin a serious planning process to complete the shift from a command to a mixed economy. This commitment needn't burden the U.S. taxpayer unduly. If the World Bank and International Monetary Fund are restored to the role envisioned when they were founded at Bretton Woods—as agents of growth rather than austerity—they can be authorized to create new credits to finance redevelopment in the East. The creation of credit to revive a moribund economy needn't be inflationary.

Third, let's wrap up the GATT round by abandoning the premise that the only good reason is perfectly free trade. Most other capitalist nations want a managed brand of capitalism, not laissez-faire. They use development technology subsidies, business-government partnerships, and a degree of managed agriculture to protect farmers from periodic bankruptcy. If a mixed economy is so toxic, why did it work so brilliantly in the quarter century after World War II? The need is for common rules, but not necessarily those of Adam Smith.

ROBERT KUTTNER IS COEDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE

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BY GENE KORETZ

PRODUCTIVITY: THE U.S. REMAINS LEADER OF THE PACK...

Don't sell the U.S. economy short. It may have suffered through a painful recession, but its current growth prospects seem far brighter than those of its industrial rivals overseas. More important, in the critical area of productivity—whether one looks at manufacturing or services—it still maintains a commanding lead. That's the assessment of William J. Baumol and Edward N. Wolff of New York University's C.V. Starr Center for Applied Economics.

In the factory sector, for example, the two economists note that, while a number of countries such as Germany and Japan were rapidly gaining on the U.S. in the earlier postwar period, the latest data indicate that Germany's growth rate has been lower than America's for some 15 years. And Japan's once far-higher manufacturing-productiv-

ity growth rate is now only slightly faster than the U.S. pace, which has recently picked up considerable steam.

That, of course, doesn't mean the U.S. can afford to sit on its hands. The global shift to services, observes Baumol, is predominantly to the burgeoning information industries, and other nations want in on the action. "Technological advances in services can move across oceans as rapidly as they have in manufacturing," he warns.

...WHILE NEW GAINS SEEM TO BE FUELING THE RECOVERY

Most of the analysis above is based on long-term trends. But the most remarkable aspect of America's productivity performance, says economist William C. Melton of IDS Financial Services Inc., has come in the 1990s. "The past six quarters," he notes, "represent the first recovery period on record in which productivity growth alone brought the economy past its prerecession peak."

With third-quarter productivity growth estimated at a 3% annual rate, the data now show that nonfarm private output rose by 2.9% in the past six quarters, as productivity or output per hour jumped 3.9% and hours worked actually contracted. Indeed, the U.S. this year seems likely to post its largest productivity gain since 1976.

What's more, services productivity is on the upswing for the first time since the 1960s. Melton notes that output per hour in the service sector appears to have risen at a 2% pace in the past six quarters, more than double its rate in recent decades. "The trend," he says, "bodes well for U.S. competitiveness and for the services trade surplus, which is running at a \$70 billion clip this year."

GOLDEN PARACHUTISTS ARE SLOW TO PULL THE RIP CORD

Are golden parachutes, as critics have charged, an outrageous ploy by top executives to enrich themselves at the expense of shareholders in the event of a takeover? Or are they, as management has argued, a device to protect shareholder interests by encour-

aging executives to act as honest brokers during takeover bids rather than resist bids just to protect their jobs?

Neither may be the case, report Harbir Singh of the University of Pennsylvania's Wharton School and Albert J. Cannella Jr. of Texas A&M University. Rather, golden parachutes seem to be mainly an incentive to improve executive and corporate performance.

In an analysis of 70 corporate takeovers in the 1980s, the two researchers found that executives with golden parachutes were significantly more likely to stay on the job in acquired companies the years immediately following a takeover than those who had no such deal. "Since it's up to the acquiring company whether an executive is retained," says Cannella, "it's clear that the new people charge valued executives with golden parachutes, and it's also clear that such executives weren't simply interested in enriching themselves by jumping ship."

In sum, say Singh and Cannella, golden parachutes appear to be a way of inducing managers to pursue long-run profitable strategies for their companies without fear of losing their jobs.

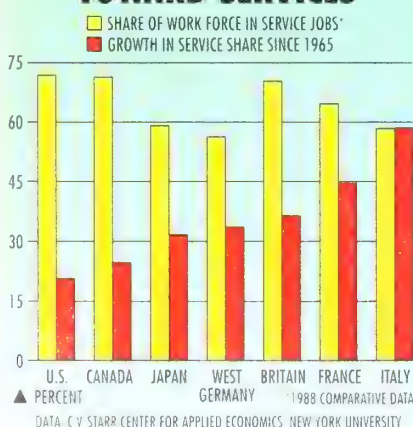
THE 'CLINTON EFFECT' COULD SHAVE NEXT YEAR'S FEDERAL DEFICIT

In late 1986, when tax-reform legislation raised the capital-gains tax rate, taxpayers reacted by unleashing a tidal wave of asset sales to take advantage of the lower tax rate that was about to expire. As a result, the tax take on capital gains soared by as much as \$30 billion in early 1987, helping to cut the deficit that year.

Now, speculation is focusing on a similar "Clinton effect" early next year. Because tax rates on high-income individuals are likely to be raised, financial advisers have been telling their customers to push income into 1992. Meanwhile, high corporate executives are said to be exercising stock options for similar reasons, and a number of companies have unveiled plans to pay bonuses in December rather than early in 1993.

No one expects anything like the 1987 tax bonanza. But any one-time jump in receipts would improve the 1993 budget picture (at the expense of later years). At the least, a "Clinton effect" likely to cut the Treasury's borrowing needs in next year's second quarter when such needs are expected to be reduced anyhow because lower withholding rules put into effect in 1992 promise to cut tax refunds in early 1993 by an estimated \$20 billion.

THE WORLDWIDE SHIFT TOWARD SERVICES



ity growth rate is now only slightly faster than the U.S. pace, which has recently picked up considerable steam.

Meanwhile, the focus is shifting to service-sector productivity. Over 70% of U.S. jobs are now in services, the largest share of any nation. But as the chart shows, service jobs in recent decades have been growing even faster overseas. "Rapid growth in manufacturing productivity," notes Baumol, "is reducing the share of the labor force needed to meet the demand for manufactured goods and driving workers all over the industrial world to the services."

Fortunately, the U.S. appears to be even further ahead of the pack in service-sector productivity. Although meas-

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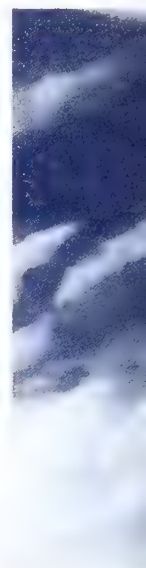
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HIS PRODUCTIVITY SURGE MAY LAST FOR YEARS

How can the economy have grown at an annual rate of 2.8% so far this year without any increase in private-sector employment? The answer is productivity. Corporations are squeezing more output from the hour that employees work. That's usually the case in recovery, but this time, the efficiency gains could lead to inflationary growth for years to come.

The much-hoped-for productivity revival following the sessions of the early 1980s faded as the recovery picked steam. One reason was demographics: More younger and less-skilled workers entered the job market. More important, the debt explosion inflated economic growth and bumped up payrolls, particularly in the service sector. The upturn in productivity growth early in that recovery turned out to be just a flash in the pan.

This time could be different. Unlike the past decade, the work force is now older and more experienced. Also, demand is now running on more traditional fuel, such as household purchasing power and corporate cash flow. Compared with the roaring '80s, the slower pace of demand is causing payrolls to look fat, and many companies are making permanent payroll cuts to increase

efficiency and competitiveness.

The gains so far this year have been impressive. The Labor Dept. recently revised the third-quarter advance in productivity up to 3% from 2.6% originally. Even modest growth this quarter assures that output per hour in 1992 will rise at the fastest pace since 1975.

Efforts to boost efficiency explain the sluggishness in job growth, a stark contrast to the buoyant pace in past recoveries (chart). Nonfarm industries added 105,000 workers to their payrolls in November, but that included 5,000 temporary election workers in local governments. Excluding all government, private-sector jobs rose by only 45,000 last month, and the trend remains flat.

CAPITAL SPENDING SURGES AHEAD

But companies aren't just eliminating jobs. They are also investing heavily in productivity-enhancing equipment, especially computers and other information processors. So far this year, capital spending on equipment has risen at an annual rate of 11.8%—the fastest three-quarter pace in eight years. And spending on information-processing equipment has soared at a 21.8% pace.

The combination of rising investment in equipment and leaner payrolls heightens the chances for a lasting upswing in productivity growth. The numbers suggest that companies are making long-term substitutions of capital for labor. That makes sense. Now, as in no other time in past decades, very low interest rates are making capital look increasingly cheap relative to labor, particularly as the cost of employee benefits continues to soar.

If productivity is indeed shifting to a higher plane over the long haul, improved efficiency will hold down the growth of unit labor costs, a key determinant of inflation. During the past year, unit costs have risen at the second slowest pace in 27 years. In that environment, wages can grow a bit faster without pressuring prices, thus lifting the purchasing power of hourly pay. Slowly rising unit labor costs also mean that profit margins can widen even if pricing power remains weak.

HOUSEHOLD INCOMES ARE PICKING UP

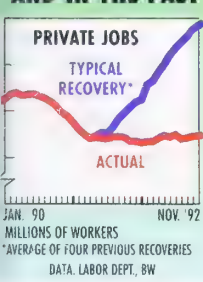
Right now, because efforts to boost productivity are retarding job growth, the workweek may be a better indicator than jobs of how the economy is doing. Despite lackluster employment growth, hours worked have risen during the past two months, in line with the better tone of much of the other economic data recently.

In November, the workweek in nonfarm industries rose to 34.7 hours, following an increase to 34.5 hours in October from 34.3 hours in September. The November reading was the highest in more than three years.

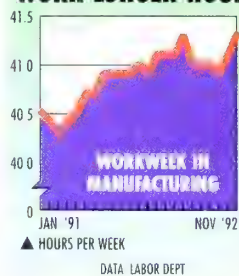
So far in the fourth quarter, total work time—a combination of employment and the workweek—has grown at an annual rate of about 3% above the third-quarter level. That suggests that real gross domestic product is likely to post a good advance this quarter. And with a pickup in hourly pay, household incomes are rising, despite weak job growth.

In particular, manufacturing appears to be gaining some momentum. Factories stretched out their workweeks in November, to 41.3 hours, up from 41.1 hours in October and 40.9 hours in September (chart). The November level matched the 26-year high hit earlier this year. Moreover, factories added 35,000 workers in November, the largest increase in nearly three years. The long workweek, combined with bigger payrolls, means that industrial pro-

JOB GROWTH: NOW AND IN THE PAST



FACTORY EMPLOYEES WORK LONGER HOURS



Business Outlook

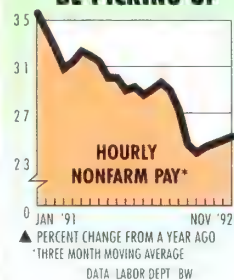
duction probably posted a strong advance last month.

One of the most telling features of the November job data was the scant 21,000 gain in employment among private-sector service companies. The biggest loser was retailing. It did not add as many workers this year as is typical at this time of year, so seasonally adjusted employment dropped by 46,000. Service companies, which account for three out of every four jobs, were the biggest hirers during the 1980s. Now, they are striving to increase their efficiency.

MORE CASH, LESS CREDIT

In addition to the longer workweek, another upbeat message from the employment report, particularly for consumers, was the pickup in wage growth. In fact, after a long slide, the pace of hourly pay may well have hit bottom (chart). True, the speedup is faint. But wage gains have been falling for nearly four years, so workers are especially encouraged by any increase in pay.

WAGE GROWTH MAY BE PICKING UP



The average nonfarm wage rose 0.6% in November, to \$10.71 per hour. After smoothing out monthly fluctuations, wage growth has picked up to 2.5% over the past year, slightly better than the 2.3% posted in the summer.

That pickup, plus the longer workweek, means workers are taking home fatter paychecks. Weekly pay for all nonfarm

workers jumped 1.1% in November, on top of a 0.8% gain in October. The November number suggests that the wage-and-salary component of personal income posted a healthy increase last month.

But the recent rise in wages does not signal any resurgence in inflation. Even if wages continue to pick up, productivity increases will keep unit labor costs on a

downward track. Unit labor costs for nonfarm businesses were up by just 0.5% over the past year—quite a turn from their 5.9% pace of a year ago.

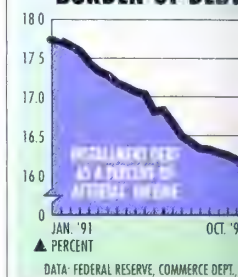
What the wage increase does signal, however, is that households have the wherewithal to finance their holiday shopping. The first few weeks of the season seem to have gone well. *Johnson Redbook Service*, published by brokerage Lynch, Jones & Ryan Inc., reports that sales during the first week of December were up by a sturdy 6.9% from last year's receipts.

In addition to the rise in income growth, consumer spending both now and in 1993 will get an additional lift from the reduction of household debt obligations. Consumer installment credit grew by a tiny \$214 million in October, only the third time this year that consumers added more debt than they paid off. And credit outstanding remains below its level of a year ago, a pattern that began in mid-1991.

This shrinkage means that debt is less of a drag on consumers. Installment credit as a percent of aftertax income slipped to 16.1% in October, the lowest such rate since 1985 (chart). A smaller debt load means that households need less of their budgets to pay off old IOUs, a fact that leaves more cash for spending. However, consumers will maintain their buying pace only if they feel the recent pickup in jobs is sustainable and not just a fluke.

The November job report suggests that the demand for labor is indeed turning the corner. For the near term, economic growth in 1993 promises to be better balanced between gains in efficiency and additions to payrolls. And over the long haul, the economy may well be poised for the best-of-all-worlds scenario: moderate growth, subdued inflation, and low interest rates.

THE SHRINKING BURDEN OF DEBT



THE WEEK AHEAD

BUSINESS INVENTORIES

Tuesday, Dec. 15, 10 a.m.

Inventories held by manufacturers, retailers, and wholesalers probably fell a bit in October, say economists surveyed by McGraw-Hill Inc.'s MMS International. If so, it would be only the third drop in stock levels this year, though inventories were unchanged in September. Factories have already reported a 0.1% decline in their October stockpiles. Business sales likely rose 0.2% in October, following a 1.3% surge in September.

HOUSING STARTS

Wednesday, Dec. 16, 8:30 a.m.

The MMS consensus expects that housing starts edged up to an annual rate of

1.25 million in November, from 1.23 million in October. However, weak new-home buying in October, higher mortgage rates, and a decline in construction jobs last month suggest that homebuilding may have declined in November. Even so, housing remains one of the economy's healthier sectors.

INDUSTRIAL PRODUCTION

Wednesday, Dec. 16, 9:15 a.m.

Output at the nation's factories, mines, and utilities should post a solid 0.6% gain for November, following a 0.3% rise in October. That's suggested by the increases in factory payrolls and workweek, especially in the auto industry. As a result, the MMS report forecasts that the capacity-utilization rate for all

industry rose to 78.8% in November from 78.5% in October.

MERCHANDISE TRADE DEFICIT

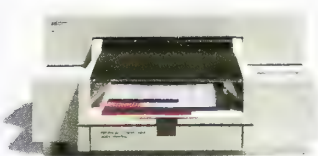
Thursday, Dec. 17, 8:30 a.m.

The foreign trade deficit probably widened only slightly in October, to \$8.3 billion from \$8.3 billion. The MMS economists project that exports, which jumped 6.8% in September, fell back about 1% in the following month. Imports were probably little changed in October, following a 4% increase. The trade deficit has widened by about \$1 billion in the first nine months of 1992 compared with a year ago. The uptick in the U.S., coupled with hurting economies abroad, suggests that the trade gap will deteriorate further in 1993.

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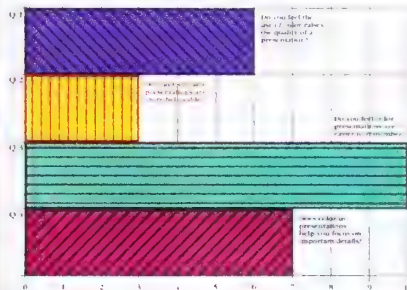
marketing **MADE EASY**

Effective marketing has one very simple objective: to focus your attention on your product or service. One of the most popular ways to accomplish this is through presentation. Many people have found that the use of color in presentation materials helps them to distinguish their organization.

Presented below are the results of a questionnaire conducted to determine the effectiveness of color in marketing presentation materials.

These are intended only to provide examples of trends. Each organization has its own characteristics. And to offer inspiration to one looking to add strength to their marketing efforts. Data points were asked to respond to the questionnaire as follows: through which device are you representing the strength of your organization? How strong is your organization? How do you feel about your organization? How do you feel about your organization?

Results of color impact survey:



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VERY SLOW, VERY STEADY

CLINTON'S ECONOMIC PICKS ARE SOLID, CAUTIOUS

On the campaign trail, Bill Clinton spent half his time promising to revive the U.S. economy by boosting savings and investment. He devoted the rest to vowing a sweeping change in the insular way that Washington does business.

With his first round of economic appointments, the President-elect is showing that he's deadly serious about that first promise. But Clinton has also revealed that he is comfortable playing the insider and that his notion of change may prove far less dramatic than his campaign rhetoric.

Fiscal moderates love the likely choices of Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) as Treasury Secretary and of House Budget Committee Chairman Leon E. Panetta (D-Calif.) as head of the Office of Management & Budget. "They are good appointments, but cautious," says former Congressional Budget Office Director Rudolph G. Penner, a veteran of the Nixon and Ford Administrations. Liberals will land some top Cabinet jobs. But the steadfastly middle-of-the-road econo-

team only confirms their worst fears: "The left has been totally neutralized," says one gleeful New Democrat.

MORE COMFORTABLE. Even as he was settling on his top appointments, Clinton has been quietly nailing down his economic agenda. While aides are still uncertain about the strength of the recovery, they seem more confident that the U.S. has moved into a period of modest growth. That, they hope, will allow Clinton to focus on his farsighted agenda of public and private investment incentives coupled with long-term deficit reduction. The short-term stimulus could be little more than symbolic—a modest \$25 billion tax-and-spending measure that will allow Clinton to say he did something about the slump.

It's no coincidence that long-range goals are also expected to dominate Clinton's economic summit, set for Dec. 14-15 in Little Rock. Invited business leaders, more comfortable with the health of

the economy, are likely to tell the President-elect just what he wants to hear: Focus on long-term growth. One invitee, Sanford R. Robertson, a Republican investment banker and Clinton supporter from San Francisco, says: "It's looking less and less" as if the nation needs a quick boost. "The economy is getting itself into gear."

The task of turning Clinton's investment dreams into reality will fall to a team rich in Washington and Wall Street savvy, united by the common goal of boosting economic growth, savings, and investment. Frank Shafroth, top lobbyist for the National League of Cities, says Clinton's economic gurus "recognize that if the deficit isn't controlled, it will hurt capital formation and investment."

Anchored by Bentsen and Panetta, Clinton's team is a mix of investment bankers and Beltway insiders. Robert E. Rubin, co-chairman of Goldman, Sachs & Co., is likely to run the newly formed Economic Security Council. The ESC will try to assure that the Administration promotes U.S. competitiveness. Bentsen's deputy at Treasury will probably be merchant banker Roger C. Alt-

Bentsen is willing to use costly tax breaks to promote his goal of boosting savings and investment

man, the vice-chairman of the Blackstone Group.

Long on brainpower, economic and political smarts, Clinton's economic all-stars could soon clash. Panetta, for instance, believes passionately that the best way to promote investment is to reduce the federal deficit's drain on national savings. Bentsen always has paid more attention to boosting private saving and investment.

TEAM PLAYERS? ECONOMIC ADVISERS VYING FOR CLINTON'S EAR

With Senate Finance Committee Chairman Lloyd Bentsen as Treasury Secretary, Clinton will have powerful help in getting his economic program through Congress. Now, all he must do is finish his plans. Here's who will help, and the agendas each may push:

LEON PANETTA



The current chairman of the House Budget Committee, Panetta has a passion—plan—for slashing the budget deficit.



ent, and he is willing to use costly tax breaks to promote his goal. Meanwhile, Harvard University's Robert B. Reich—who will continue to provide Clinton economic advice—is a proponent of investment in education, training, and other human-capital programs.

Properly managed, such creative tension could reap big dividends. But it puts enormous pressure on Clinton to act as mediator and broker. According to

Bruce Barry, a management professor at Vanderbilt University, Clinton favors a "garbage can" model: "Throw the right people together, and make the right decision at the right time."

By dint of his experience and Washington stature, Bentsen is destined to dominate the team. The courtly Texan is no reformer (page 28). And liberals view him as a Republican in Democrat's clothing. "Bentsen is associated with George

Bush's theories," says Jeff Faux of the labor-backed Economic Policy Institute. "You cut taxes on the rich, and that stimulates growth."

Bentsen wouldn't quite put it that way, but he believes strongly that tax breaks for business promote job creation. He'll use his Hill expertise to push Clinton's investment-oriented tax plan through Congress quickly. "He knows whose arm to twist and how to twist it," says Scott E. Pardee, chairman of Yamaichi International (America) Inc.

NO BIG SPENDER. The Texas Democrat is a master at the intricacies of tax law and understands the impact of tax provisions on corporate decisions. While he is no deficit hawk, Bentsen has been an advocate of fiscal responsibility. The exception: his 1992 proposal to expand individual retirement accounts, which over the long run might have been a revenue-loser.

Bentsen also may make Treasury more of a player in trade matters. He's a strong backer of the North American Free Trade Agreement but is willing to threaten retaliation to force the Japanese to open their markets. His two big weaknesses: He's 71 years old, and some question his stamina. Also, he has little experience in international finance. Still, the patrician Bentsen should get along well with fellow finance ministers. After all, says one Bentsen-watcher, "he looks like a Treasury Secretary. He wears Treasury Secretary suits."

Whereas Bentsen is aloof, Panetta is down-to-earth. But underneath his backslapping good nature is a tough politician. He has always been willing to say no—a vital trait for a budget director. "Panetta should be given a lot of credit for sticking his neck out," says Urban Institute economist Eugene Steuerle. And while budget directors tend to be strongly partisan, Panetta began his political career as a Republican staffer.

Clinton's Friends of Bill were well represented in the campaign, and Clinton seems to have reserved an important advisory role for school chum Reich. Trained as a lawyer, not an economist, Reich is unburdened by either academic baggage or social-science discipline. He once advocated industrial policy and managed trade, but he now thinks investing in human capital makes more sense. With no bureaucratic power base, Reich could be little more than a gadfly. Or he could prove an intellectual counterweight to more prosaic Wall Streeters and Capitol Hill insiders around Clinton.

The investment-banking world will be represented by at least two members of the economic team. Blackstone's Altman is expected to be the deputy at Treasury. As an Assistant Treasury Secretary in

ROBERT REICH



The Harvard academic once was a strong believer in industrial policy. Now he wants to focus on public investment in education and infrastructure

ROBERT RUBIN



The co-chairman of Goldman Sachs could be a friendly liaison to the world's credit markets. Rubin believes in developing economic opportunities for America's poor

the Carter Administration, Altman played a pivotal role in the bailout of Chrysler Corp. Tough and abrasive, he has been known as a deficit hawk.

Rubin made his mark helping to build Goldman Sachs into what many regard as Wall Street's most powerful firm. A top Democratic fund-raiser, he has become more interested in policy. His views stray far from Wall Street ortho-

doxy. For instance, he says: "I don't think we can have a successful economy until we deal with the problem of the urban poor." But his biggest influence will be in more traditional arenas. He'll be a key liaison to the credit markets.

These picks may not set the hearts of Democratic activists a-flutter. But they reflect Clinton's laser-like focus on the need for long-term investment. Presi-

dents Carter and Bush never did develop a coherent economic policy. By picking a group that shares a common concern in the long view, Clinton has managed to get a leg up on his White House predecessors, even if he's not exactly turning Washington inside out.

By Howard Gleckman, with Doug Harbrecht, in Washington, Russell Mitchell in San Francisco, and bureau reports

THE COURTLY, CUNNING NEW MAN AT TREASURY

Twenty years ago, San Antonio city leaders asked Senator Lloyd Bentsen (D-Tex.) for help in building a freeway from downtown to the airport. Despite the opposition of the influential Howard H. Baker, then a Republican senator from Tennessee, Bentsen cleared the way for his constituents. Several years later, Baker wanted similar help for Memphis. Bentsen, then chairman of the Senate's highway subcommittee, pulled out a piece of paper, read aloud Baker's reasons for opposing the Texas highway project, then delivered enough proxy votes from members of the panel to kill Baker's request.

Don't be fooled by his soft-spoken, courtly demeanor. Lloyd Bentsen, 71, is one tough cookie. In 1977, for example, Bentsen quashed the nomination of a young Dallas Democrat named Martin Frost as U.S. Attorney in Dallas. Frost's sin? He had been the North Texas coordinator for Jimmy Carter, who had defeated Bentsen for the 1976 nomination. "The problem was, I supported the wrong guy—the guy who won the election, not the guy who controlled the patronage," Frost says. Still, when Frost unseated a Democratic congressman in the 1978 primary, "the first congratulatory call I got was from Senator Bentsen," he remembers. The two have worked closely since.

TURBULENCE. That's good news for Frost. Nearly five decades after turning up in Washington as a 27-year-old congressman from Texas' Rio Grande Valley, Bentsen is a savvy political insider, a cunning negotiator with a long memory, and a man you want on your side. Witness his two terms as chairman of the Democratic Senatorial Campaign Committee, in 1974 and 1984.

Though the terms were turbulent, coming on the heels of Watergate and Ronald Reagan's second-term triumph, Bentsen successfully raised money for a host of Democratic candidates—many of whom still rank as important allies.

There's no doubt that in Bentsen, Bill Clinton has selected a Treasury Secretary who can teach the new President a thing or two. Bentsen is fiercely competitive. That means he's likely to

party that persist even to this day.

And Bentsen's long career hasn't been without the occasional slipup. In 1987, Bentsen invited lobbyists to join a "breakfast club," where they could share eggs and small talk with the Finance Committee chairman in exchange for a \$10,000 campaign contribution. In a glare of negative publicity, Bentsen dropped the plan.

Bentsen made his Senate mark during a 1979-80 stint as chairman of the

Joint Economic Committee. Amid a surge toward supply-side Reaganism, he repudiated Democratic economic orthodoxy and embraced tax changes to stimulate investment and encourage savings. The normally contentious panel produced bipartisan reports for the only time in its history. **'IMPRESSIVE.'** As Finance chairman, Bentsen has won the respect of Corporate America. Last year, Bentsen called then-General Motors Chairman Robert C. Stempel after GM officials had rebuffed requests from Governor Ann Richards and other state officials, who wanted to discourage him from closing a plant in Arlington, Tex. "We all have



BENTSEN: SOFT-SPOKEN—BUT HE'S BEEN KNOWN TO HOLD A GRUDGE

be an activist Treasury Secretary, involved in every deal from conception to closing. "He's a damn good negotiator," says one House Democratic leadership source. "He knows what he wants and how to get it."

The Texan hasn't always been so smooth. As a young congressman, Bentsen suggested that President Harry Truman drop an atomic bomb on North Korea. In his 1970 Senate primary race, he savaged liberal Democratic incumbent Ralph W. Yarborough, linking him to the antiwar rioters at the 1968 Democratic convention in Chicago—and leaving scars on the Texas

been unsuccessful, including the governor, until Senator Bentsen called," recalls Representative Frost. "Then, miraculously, Mr. Stempel fell all over himself to be cooperative. It was a very impressive show." Soon, GM said it would keep the Arlington line open.

President-elect Bill Clinton figures Bentsen is a man who can get his call returned—on Capitol Hill, in the business community, and in foreign capitals. He had better also be counting on working with a Treasury Secretary who kicks butt, takes names, and gets things done.

By Richard S. Dunham in Washington



LOS ANGELES: ASIANS AND PACIFIC ISLANDERS ARE THE FASTEST-GROWING U.S. GROUP

SPICIER STEW IN THE MELTING POT

By 2050, the U.S. may be 47% nonwhite—and much more populous

Drop by Lotte, an Asian supermarket in suburban Rockville, Md., and you'll be instantly transported to the Far East. Koreans, Chinese, and Japanese customers mob the 9,500-square-foot store, snapping up everything from fiery *kim chi* to fresh quail eggs. "Before we opened up three years ago, there were only small oriental shops" in the area, says manager Andy Kim. But metro Washington's Asian community, which doubled in the past decade, is swelling so fast that Lotte last year opened a second store in northern Virginia.

Lotte may feel like Seoul, but it's an important preview of 21st century America. Indeed, a surprising revision in the Census Bureau's long-term population precast has shattered notions about what America will look like 50 or so

years from now. In a report released on Dec. 4, Census now estimates that by the year 2050, Asians, Hispanics, African Americans, and other nonwhite groups could represent 47% of the total population (charts). In its last projections, published just three years ago, Census figured minorities would make up only 25.2% of the population in the mid-21st century.

That's not all. By 2050, the bureau now says, America's population could jump 50%, to 383 million, from 255 million in 1992. In its 1989 projections, Census estimated the population would peak at 301 million in 2040, then slip to just under 300 million a decade later.

Why the drastic revisions? The numbers-crunchers at Census say they looked hard at their assumptions about fertility rates, longevity, and immigra-

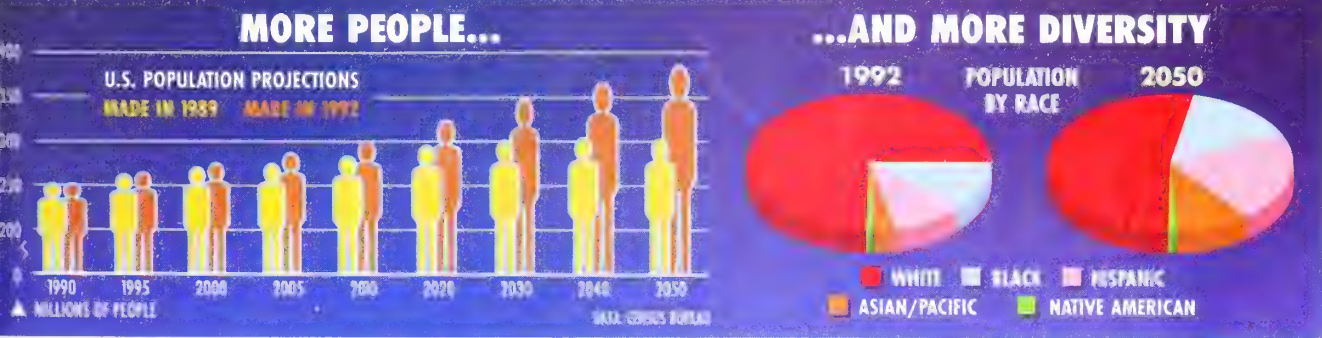
tion flows. The result: They now expect more babies, more gray beards, and more new faces from San Salvador, Jakarta, and all over. Says Carol De Vita, a demographer for the Population Reference Bureau: "This all drives home just how quickly the country's population picture is changing."

BEST EASY. The new report has dramatic implications for public policy and for the marketing of everything from diapers to drugs. The prospect of 80 million extra workers to tax, for instance, is welcome news for the Social Security trust fund. The retirement system has been projected to go bust by 2036, when the youngest baby boomers will be in their 70s. Even though increased life expectancy means pensioners will be drawing their checks for a greater number of years, the growth in the younger population should allow the Social Security system's trustees to adopt a rosier outlook when they draw up a new 75-year actuarial study next spring.

Many of these future workers will be brandishing green cards. Legislation in 1990 increased the annual level of legal immigration. That, combined with continuing illegal border-hopping, led Census to increase the net inflow from 500,000 to 800,000 people a year. The fastest-growing population segment will be Asians and Pacific Islanders, whose numbers will increase fivefold, to roughly 12% of the total population by 2050. Hispanics, who will overtake African Americans as the largest minority group early next century, will represent 21%.

Reaching this rainbow of ethnic groups with the right product and message will be a considerable challenge for marketers. "The key is what will be the rate of assimilation culturally and linguistically," says Peter Kim, U.S. director of strategic planning at ad agency J. Walter Thompson Co. Second-generation Asian Americans, for instance, are likely to have a command of English, making them more responsive to mass-market print, TV, and radio campaigns.

Not so Hispanics, who often live in Spanish-speaking enclaves in large cities. That's why Procter & Gamble Co. has taken to sponsoring Hispanic events, such as Miami's Carnival festival, which



draws 1 million visitors. "We're certainly one of the biggest spenders" in Hispanic marketing, says a P&G spokeswoman. Even so, *Hispanic Business Magazine* estimates that the consumer-product behemoth spent only \$29 million of its \$2.1 billion ad budget in 1991 on Hispanic-community advertising. P&G declined to break out the figures.

Such limited spending underscores the fact that many marketers have been slow to catch the wave of change. Although Hispanics spend some \$200 billion a year, only 1% of ad budgets are targeted at them, according to consultant DRI/McGraw-Hill. "Very few companies have targeted the Hispanic consumer seriously," says George San Jose, president of San Jose & Associates, a Chicago-based advertising agency.

FOREVER YOUNG? The expected surge of Hispanics and Asians—two groups that tend to have bigger families than whites—is one reason Census has boosted its fertility guesstimate. By 2050, it predicts, the average woman will have 2.12 children, instead of today's 2.05. "All this bodes well for the food companies, since we're heavily reliant on population growth," says John Blair, vice-president of marketing at Quaker Oats Co. The prospect of more American families could also boost the housing and real estate markets—even if the impact won't be spread evenly. Dortella and other demographers expect most immigrants to gravitate to traditional entry-point states such as California, New York, and Texas.

Companies catering to the other end of the age spectrum have reason for cheer, too. With life expectancy now anticipated to hit 82.1 years for those born in 2050, vs. 76 for those in diapers today, the number of the oldest—and often sickest—Americans will quintuple over the next 60 years. Small wonder that P. Roy Vagelos, chief executive of drug giant Merck & Co., happily pointed out to Wall Street analysts recently that "early next century, one in five Americans will be eligible for Social Security and Medicare." Merck has been quick to pounce on the aging trend with such new offerings as Proscar, an alternative to prostate surgery.

Even so, the new Census Bureau projections belie fears of an America populated by a citizenry coping with receding gums and aluminum walkers. Higher immigration and bigger families will keep America young well into the next century. That's good news for pop-culture purveyors in Hollywood. *Home Alone* 25, anyone?

By Brian Bremner in Washington, with Joseph Weber in Philadelphia and bureau reports

EXECUTIVE SUITE

A QUIET COUP AT AMERICAN EXPRESS

The real story behind James Robinson's retirement



THE COMPANY HAS TO TURN AROUND ITS CARD UNIT AND BOLSTER SHEARSON

As departures go, it seems like a throwback to more civilized days. Instead of getting the bum's rush from his own board—the inglorious fate of GM Chairman Robert Stempel—James D. Robinson III says he is relinquishing his chairmanship of American Express Co. at his own initiative. He's even heading a committee to choose his successor, now that he feels that, after 15 years, his work at AmEx is nearing an end. "We're at a point where I can genuinely say, 'This is the right strategy, we're on target, we have the right focus, and we're going to get there,'" says Robinson, 57.

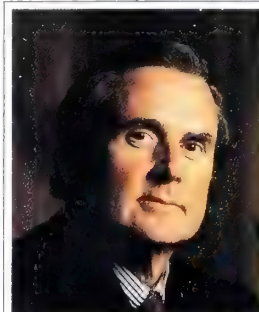
But contrary to the version of events recounted by Robinson and echoed by AmEx spin doctors (box), he is exiting only one step ahead of increasingly restive AmEx directors, several sources close to the board confirm. A leader of the insurgents is a close ally of none other than Howard L. Clark Sr., the former AmEx chairman who chose Robinson to succeed him in 1977.

Now, the board must name a successor. They're

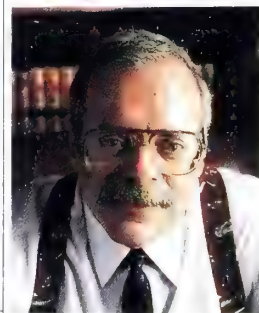
measuring about 20 outside candidates against the leading internal choice, AmEx President Harvey Golub. Whoever gets the nod will be taking the helm of a deeply troubled company. AmEx' basic charge-card business has yet to turn around, Shearson Lehman Brothers Inc. lacks the capital it needs to strike out on its own, and employees are in a state of suspended animation

until a new leader is named. "If it looks like you are drifting, people lose confidence," notes Colorado Treasurer Gail Schoettl, whose state pension fund is an AmEx shareholder.

BAD INK. The departing chief had been on thin ice with the board for more than a year. In 1991, directors John J. Byrne, CEO of Fund America Cos., and Roger S. Penske, president of Penske Corp., a privately held transportation services company, began agitating for change, say sources close to the board. Both Penske and Byrne declined to comment. They and the other directors were reeling from a seemingly unending torrent of bad news, from a surprise \$155 million writ-



ROBINSON: NO HEIR



GOLUB: IN LINE?

own on Optima, a revolving credit card, to a revolt by Boston restaurateurs.

That wasn't all. At least one director was furious about the hefty bonuses Robinson approved for Lehman Brothers managers in 1991. And several directors were shocked at what they read in two 1991 books about American Express—*House of Cards*, which described Robinson's management failures, and *Vendetta*, which focused on the attempt by high-ranking AmEx employees to smear banker Edmund J. Safra.

One of Robinson's biggest behind-the-scenes critics was Clark, an adviser to the board who still attends its meetings, say several people who have spoken with Clark in the past year. Clark remains close to former Mobil CEO Lawrence Warner Jr., 71, whom he nominated to the board in 1972. Clark worried about AmEx' low stock price, say Clark confidants. Two of Clark's friends recall he is saying that hiring Robinson was the biggest mistake he ever made. "I'm not going to comment on that," Clark told BUSINESS WEEK.

The board's biggest beef with Robinson is the bottom line. AmEx earnings dropped 31%, to \$380 million in the first

AMEX' EMPIRE IS SHRINKING

Unit	Third-quarter net income (millions)		Strategy
	1991	1992	
TRAVEL RELATED SERVICES	-\$88	-\$187	Try to regain market share, cut costs, sharpen customer focus
IDS	67	80	Concentrate on core financial-planning business
AMERICAN EXPRESS BANK	18	-30	Keep writing down bad loans. Be prepared to sell
SHEARSON LEHMAN BROTHERS	63	-25	Buff up the balance sheet to prepare for possible spin-off
FIRST DATA CORP.	30	37	AmEx' 46% stake in credit-card processor is worth \$2 billion. Consider selling to raise cash

DATA: AMERICAN EXPRESS CO., BW

three quarters of 1992. And the flagship card unit, Travel Related Services, will net an estimated \$227 million in 1992, down from \$955 million in 1990. Analysts give Golub high marks for attacking TRS's problems and believe cost-cutting and an economic upturn could boost TRS's 1993 earnings.

'DISTRACTED.' At that point, AmEx will be in better shape to cut Shearson Lehman Brothers loose. Robinson thinks Shearson is close to being a stand-alone, A-rated entity. Yet AmEx may have to inject hundreds of millions more into Shearson before spinning it off. And Shearson's estimated 1992 earnings of

\$200 million are disappointing, in part because compensation eats up 61% of net revenue, the highest level on the Street.

Robinson says he expects to return to the venture-capital or private deal business once he steps down. That could happen in January, says Gerard R. Roche, president of Heidrick & Struggles Inc., the search firm retained by the AmEx board. Until the board decides, employee morale will suffer. "Some people are distracted, and that will go on as long as the search goes on," says one AmEx manager.

Sources close to the company say one outside candidate is RJR Inc. Chief Executive Louis V. Gerstner, former CEO of AmEx. But Golub may have the inside track, if only because bringing in an outsider could derail the tentative progress he has made at TRS and disappoint Wall Street. "What I like about Harvey is that he's a manager, not a worldly socialite," says Alison Deans, an analyst at Smith Barney, Harris Upham & Co. But here's some free advice for AmEx' next leader: Don't wait too long to choose an heir apparent.

By Leah Nathans Spiro, with John Byrne, in New York

HOW SPIN DOCTORS NURSED ROBINSON'S REPUTATION

Call it the battle of the flacks. In this corner, James D. Robinson III, the American Express Co. chairman who has been called the Teflon CEO. In that corner, the PR staff of *Fortune* magazine, who knew they had a hot story to flog.

The shots started flying at about 2:30 p.m. on Saturday, Dec. 5, when the magazine faxed copies of its story, headlined "The Coup at American Express," to major newspapers and wire services. Within hours, AmEx' savvy public relations staff—armed with any advice they may have gotten from the boss's wife, high-profile PR maven Linda Robinson—was circulating the corporate line on Robinson's resignation. AmEx landed a heavy counterpunch when the Sunday *New York Times* ran a story quoting board member Rawleigh Warner Jr. to the effect that Robinson was orchestrating his own departure. By Monday, *The Wall Street*

Journal and *The New York Times*, which interviewed Robinson and directors over the weekend, had Robinson's description of how he initiated his own exit. The message: no coup here.

That is not exactly the case, as BUSINESS WEEK has learned. But the first stories could have been far tougher on the AmEx chairman if the company hadn't been so quick to limit the damage. "They were quite successful

in persuading journalists that this was a process that Robinson was in control of and not a revolution—therefore, not a big story," says Richard W. Edelman, president of Edelman Public Relations Worldwide, a big Chicago and New York PR shop.

WHY HIDE? Investors, however, gripe about the 2½-month gap between the board's decision to replace Robinson and the news leak. And several PR pros believe having a press conference in September would have made for a smoother transition.

A secret battle may have pitted Robinson against some of his own directors. "Someone at AmEx wanted us to know," a *Fortune* spokeswoman says. Given that, AmEx flacks did O. K. Says Irving Schenkler, who teaches PR at New York University's business school: "They tried to retain a bit of dignity for Robinson." They succeeded.

By Leah Nathans Spiro in New York



IBM'S NEXT REMODELING COULD BE A DOOZY

John Akers' controlled disintegration of the monolith isn't over

In late November, IBM directors gathered in Tokyo for one of their periodic meetings. Before them, Wall Street analysts say, Chairman John F. Akers sketched out plans for a series of bold changes at his beleaguered computer company. Pleased with what it heard, the board gave Akers a thumbs up. Since then, as Daniel Mandresh, computer analyst at Merrill Lynch & Co., puts it: "The lights have been burning late in Armonk"—IBM's corporate headquarters.

The end result, Wall Street believes, is the imminent unveiling of IBM's second massive reorganization in little more than a year. And massive, analysts say, is the best word to describe the overhaul, which may be announced as soon as Dec. 14.

The changes are expected to further Akers' year-old plan for the controlled disintegration of the IBM monolith. In November, 1991, Akers divided the company into 14 lines of business—10 devoted to specific product lines and four to marketing—that were to gain varying degrees of autonomy over time. But now, says Mandresh, conceding that he knows few specifics of what's to come, the new round of changes "will go beyond any Wall Street analyst's or reporter's imagination. They will be sweeping."

ANYBODY'S GUESS. For its part, IBM is mum. It won't say what it plans to do or even confirm that anything is in the works. But the computer industry widely believes Akers will hasten the units' shift toward autonomy while he takes another swipe at IBM's payroll. After lopping off 40,000 positions in 1992 to leave about 300,000 workers worldwide, IBM may slash its employee roster by an additional 30,000 people or more during 1993. Since 1986, IBM has been able to tighten its payroll by slightly more than

100,000 people through early-retirement incentives. This time, however, Big Blue may resort to outright layoffs. IBM is "still saddled with a lot of people," says Barry Bosak, computer analyst at Smith Barney, Harris Upham & Co.

Layoffs or not, IBM would incur a sizable charge against its 1992 earnings. Analysts had expected the company to post per-share profits of \$3.50 or so, an

IBM'S CLOUDY OUTLOOK

Each month, some 2,000 professional computer buyers who have purchased IBM equipment in the past detail their spending plans for the next six to nine months. Here are their most recent responses, compared with their answers from the previous 12 months:

	October, 1992	Trailing 12 months
Total number planning to purchase computers	549	4,788*
Percent planning to buy:		Monthly average
Any IBM computer	50%	57%
IBM water-cooled mainframes	2	11
IBM air-cooled mainframes	0	2
AS/400 midrange systems	23	17
RS/6000 workstations	4	6
IBM PCs	22	22

*Cumulative

DATA: COMPUTER INTELLIGENCE



WHO LEAVES, WHO STAYS? IBM NO LONGER VOWS NO LAYOFFS

improvement over last year's 99¢ loss, before charges and accounting changes. Now, they say, IBM's results are anybody's guess. Indeed, as reports of impending changes began circulating on Dec. 9, IBM's stock sank 2¾ points, to 62½. Investors are especially worried that cash constraints would force IBM to cut its dividend, which at \$4.84 a share yields a plump 7.3%. Standard & Poor's Corp. reacted, too, by placing a watch on IBM's AAA debt rating on Dec. 9.

More enticing than another payroll cut, though, is speculation that IBM will take dramatic measures toward giving its 10 product groups much greater autonomy than they now enjoy. At the least, Big Blue is expected to substantially disentangle the Baby Blues' accounting books and release more detailed information about their performance.

Even after last year's restructuring, IBM has continued to report a single blended set of financial figures. The problem for investors is that the company's success in its Austin-based workstation business, say, may be overshadowed by softness in the far larger mainframe business (table). It's terribly difficult, says Mandresh, for IBM's own bookkeepers, much less outsiders, to determine how the costs of Big Blue's 80,000-strong U.S. sales force should be allocated across IBM's uniquely broad and varied product line. "The logistics are monstrous," Mandresh says.

CONCRETE CHANGES. But Akers could even further than just opening IBM books, if only to assure outsiders that this time he really means business. Investors have grown increasingly im-

tient with Big Blue—and with Akers' performance as CEO—as restructuring after restructuring fails to revive the computer company. The feeling is that Akers can't afford to wipe out 1992 earnings with another downsizing charge if he doesn't make concrete structural changes at the same time.

So Akers might try to please investors by setting forth a detailed schedule for spinning off certain product groups into partly owned subsidiaries with their own class of stock. That's clearly Akers' intent, judging from his reaction to a newspaper story in November, 1991, that detailed how IBM could deliver more shareholder value if it were broken into pieces. "I thought I was reading my own words," Akers said. Soon, he could be trying to turn those words into reality.

By John W. Verity, with Catherine Aronson, in New York

BA-USAIR: HOW TO HAVE A SMOOTH TAKEOFF

Last August, when British Airways PLC stunned the aviation world with plans to pump \$750 million into USAir Group Inc. for a 21% voting stake, the stock market nodded its approval. The Bush Administration, the smart money said, would do likewise. But four months later, the markets and mavericks are worrying. The U.S. refuses to approve BA's purchase until Britain grants open access to all its airports. Britain says it won't do that until BA first gets its hands on USAir. Both sides face a Dec. 24 deadline, when BA can walk away if approval hasn't been granted.

FOURTH PLAYER. The deal is too important—and not just to BA and USAir—to let it slip away. On a grand scale, an agreement between the two countries would serve as a model for France, Germany, and Japan, all negotiating new air-service agreements with the U.S. Closer to home, the jobs of 47,000 USAir employees are at stake. While not so bad off as Northwest Airlines Inc., which on Dec. 7 jettisoned together a \$250 million loan package that will forestall Chapter 11 filing, USAir has debt of \$2.1 billion and has posted losses in 12 of the past 13 quarters. Without BA's money, predicts analyst James C. Halstead of Swiss Bank Corp., USAir may have to file for bankruptcy protection within a year.

Perhaps more important are the interests of the flying public, which needs a vigorous fourth competitor to keep the heat on the Big Three: American, United, and Delta Air Lines. Successful completion of a BA-USAir deal would also send a reassuring message to struggling carriers such as America West and Trans World Airlines. The dynamics of the airline business are such that the mega-

doses of capital that these airlines require are almost certainly going to have to be provided by sources outside the U.S.

Clearly, the U.S. government has every incentive to come to terms. So do British leaders, who stand to gain unprecedented access to the huge U.S. market for their country's flagship carrier. And by considering a few common-sense guidelines, both sides could walk away claiming victory.

First, don't let the Big Three botch the deal by cloaking their own agenda in high-sounding talk about the national interest. While they lack an official seat at the bargaining table, U.S. carriers have been lobbying furiously from the sidelines. They're intent on gaining assets—new routes, landing slots, even rights to carry passengers to third countries—for which they aren't willing to pay. American Airlines Inc. and United Airlines Inc., for example, both turned down the chance to

buy Dan-Air Services Ltd., a British carrier with routes between London and several of the most desirable European cities, for a mere \$60 million. And yet both loudly protest that, with USAir, BA would have freedoms in the U.S. that they don't have in Europe.

Such special pleading shouldn't distract negotiators from their ultimate goal: open skies. But complete freedom—with no limits on routes, fares, ownership, or capacity between and within countries—can't be achieved overnight. A BA deal would provide the framework for a gradual phasing in of open skies.

CONCESSIONS. To get the ball rolling, BA will have to drop its insistence on veto power over major USAir decisions. Britain then must grant unlimited access from U.S. cities to regional airports in Birmingham, Glasgow, and Manchester.

But the linchpin of any serious agreement is access to Heathrow. It is

the world's biggest and busiest international airport, where more than 200 carriers pick up passengers bound for all parts of the globe. BA controls 40% of the airport's 233,000 yearly landing and takeoff slots. BA should voluntarily auction off 10% of its Heathrow slots to U.S. carriers. The U.S. should respond by letting BA increase its voting stake in USAir to 49% and allow it to fly beyond U.S. cities to destinations across the Pacific. At the same time, U.S. airlines should gain the right to fly from Britain to the rest of Europe.

Until now, absence of an intelligent spirit of compromise has blocked the BA-USAir tie-up. But Prime Minister John Major has a chance to get serious with President Bush when the two meet in the U.S. on Dec. 18. The clock is ticking.

A PLAN TO OPEN UP THE SKIES

If British Airways wants to invest \$750 million in USAir Group Inc., the U.S. should allow it—for a price. How a deal might work:

- | | |
|----------------|--|
| STAGE 1 | BA gets 21% of USAir now but drops demand that board moves need an 80% majority. U.S. carriers can fly freely to Manchester, Birmingham, and Glasgow. U.S. gives startups access to key airports |
| STAGE 2 | By 1994, BA boosts stake in USAir to 49%, while auctioning off 10% of its Heathrow slots to U.S. carriers |
| STAGE 3 | By end of 1996, the U.S. and Britain allow unlimited flights within and between countries. U.S. doesn't allow majority control of carriers until EC does, too |
| STAGE 4 | European Community and North American Free Trade Agreement signatories negotiate as trading blocs to remove all limits on flights within and between their cities. Goal: Open skies by 2000 |

DATA: BW

IN LONDON, BA CONTROLS 40% OF HEATHROW SLOTS



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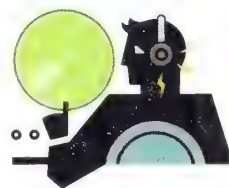
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BRAWLS IN TOYLAND

Discounters are putting the heat on Toys 'R' Us, forcing a price war

Executives at Toys 'R' Us Inc. should be as jolly as Santa Claus this Christmas. After all, the chain's largest toy-store rival, Child World Inc., closed its doors for good last summer. And another big competitor, Lionel Corp., is hobbling along under Chapter 11 bankruptcy protection and has shuttered 31 of its 100 stores.

But Toys 'R' Us is hardly kicking back with a mug of well-spiked eggnog, thanks to a clatter of fresh rivals: discount merchants such as Wal-Mart, Kmart, and Target Stores (page 66). Led by Wal-Mart Stores Inc., the discounters lately have been beefing up their toy departments while adding scores of new outlets. And they're using toys as traffic builders during Christmas, advertising superlow prices on hot items to lure shoppers. That has forced Toys 'R' Us to slash its own prices—one reason analysts figure the company's U.S. operating margin has been squeezed from 13% in 1989 to about 11.6% this year.

Indeed, the discounters have emerged as a real threat to Toys 'R' Us's dominant 20% share of the \$15 billion U.S. toy market. Wal-Mart, by far the most



AT KMART: USING LOW-PRICED TOYS AS A TRAFFIC BUILDER DURING THE CHRISTMAS SEASON

potent rival, has more than doubled its share since 1985, to 12%, and is pushing into the Northeast and California. Kmart, meanwhile, expects its toy sales to grow 25% this year. "If Wal-Mart and the other discounters weren't around, Toys 'R' Us would have the toy market virtually to itself," says Greg Simpson of A.G. Edwards & Sons Inc.

DISCOUNT COUPONS. To counter the new threat, Toys 'R' Us is making big changes in its marketing strategy. The Paramus (N.J.) company grew at a 25% annual rate during the 1980s by sticking to its everyday-low-price philosophy, stealing business from higher-priced

merchants. But with its competitors advertising even lower prices on some items, Toys 'R' Us has switched to a new policy: Bring in a rival's ad, and we will match the lower price.

That has only accelerated the price war. A comparison of a half-dozen best-selling items in the Port Huron (Mich.) area, for instance, reveals just how fierce the competition has become. Wal-Mart and Kmart Corp. are a few cents cheaper than Toys 'R' Us on nearly every product. Another sign of the shift away from everyday low pricing: Last Christmas, Toys 'R' Us for the first time gave away three million catalogs with \$1

SEGA: LIGHTNING STRIKES AGAIN

Every year, one toy is so cool that, for kids across America, Christmas without it will be too painful to contemplate. Invariably, that guarantees a shortage so severe that parents can't find the thing for love or bribery. This year, Sega CD from Sega of America Inc., which began hitting store shelves on Nov. 8, is it.

Even with its steep \$300 price tag, retailers can't get enough of this toy. Across the U.S., hopeful buyers are getting their names on waiting lists. "They're selling almost before they hit the store," says Tim H. Newkirk, toy buyer at Sears, Roebuck & Co.

Why the fuss? In addition to playing standard Sega Genesis games, the Sega CD brings compact-disk quality to video games. Its CD-based games can

contain high-quality animation and even crude full-moving pictures. "Night Trap" and "Sewer Shark" from Digital Pictures Inc., for instance, let players alter the action on real B-grade movies. Digital Pictures will soon introduce games that let players create their own videos for songs by such pop stars as Marky Mark and Prince.

'BLOTCY.' For Sega, the shortage marks a fine finish to a very good year. In 1992, it wrested about 40% of the 10 million-unit market for 16-bit video games from Nintendo of America Inc. But will Sega CD have staying power? "I don't think you'll see this kind of momentum for the product after Christmas," says Standard & Poor's Corp. analyst Paul H. Valentine, who thinks the system is too costly and the

quality too inconsistent. He may have a point. William R. Bruchert, a 22-year-old Chicagoan, says he has been disappointed by the "blotchy" video quality of the games out so far and is hoping for games with better animation instead. "Basing an entire game on video can become a bit tiresome," he adds.

Nintendo, which says it isn't worried about Sega's lead, will introduce its own CD-based video system next year. Sony and a spin-off of video-game maker Electronic Arts, called 3DO, have versions in the works, too. 3DO's product, aimed at adults,

and retailing for nearly \$700, will be announced Jan. 7. But none of them will reach the store until next Christmas. That means Sega has this holiday all wrapped up.

By Richard Brandt
in San Francisco



"NIGHT TRAP" LETS PLAYERS ALTER THE ACTION IN B-GRADE MOVIES

th of money-off coupons. This year, will hand out twice as many and has eased the savings to \$315.

Even if they can match the discount-most of the time, Toys 'R' Us executives, who have a policy of declining interviews during the holiday season, have analysts that they're looking for other ways to stand out. Toys 'R' Us e-Chairman Michael Goldstein told a industry conference in late October that the chain's advertising now will put re emphasis on its broad selection: Toys 'R' Us stocks some 16,000 items in typical store, vs. a few thousand at the counters. The company also is spending heavily to refurbish older stores.

Toys 'R' Us is trying to improve service, too. To shave costs, the chain had led itself as self-service. "If we have Achilles' heel, it's service," Goldstein said at the fall conference. But Toys 'R' Us this year decided to put hundreds of extra staffers in its stores. "This is a major change for Toys 'R' Us," said Goldstein. "But we think the extra payroll costs this year will be worth it."

GLOBAL REACH. To help compete with the counters who draw customers with a wide array of merchandise, Toys 'R' Us is trying to broaden its appeal. The new concept: Books 'R' Us. At 30 outlets, portions of the store have been equipped with carpeting, comfortable chairs, and an expanded children's book selection. Then, there's Parties 'R' Us—a concept that groups all party-related goods together. "Toys 'R' Us is finalizing something to make their shopping environment more consumer-friendly," says John H. Williams, general manager of Ray Larsen Associates Inc., a Manhattan-based sales agent for toymakers. "For years, they were so popular they didn't have to do much to draw in the customer."

Toys 'R' Us does have some advantages over rivals. Its U.S. expense-to-sales ratio of 17%, for instance, rivals Wal-Mart's 15%. And although comparable-store sales in the U.S. were up only 3% in the first nine months of 1992, analysts predict the chain's Christmas business will benefit from the demise of World. Earnings per share, which had barely inched ahead in 1990 and 1991, are expected to rise 25% in 1992.

Even so, much of Toys 'R' Us's sales and profit growth is coming from its fast-expanding international operations. The chain opened 41 new stores in Europe and Asia during 1992, up from 29 the prior year. International sales contributed an estimated 18% of sales in 1992, vs. 9% in 1988. There's still room for more growth. And best of all from Toys 'R' Us's viewpoint—there's no Wal-Mart overseas. Not yet, anyway.

By Mark Maremont in Boston, with Greg Owens in Port Huron, Mich.

L.A. GEAR STILL LOOKS LIKE AN ALSO-RAN

New product has been too little, too late, and burned retailers are wary

Stanley Gold must wish he had some of that Disney magic dust. Head of Shamrock Holdings Inc., the Disney family investment company, Gold proved himself as good as his name in 1984 by bringing in Michael D. Eisner to revive declining Walt Disney Co. Just over a year ago, shortly after paying \$100 million for a 34% stake in stumbling L.A. Gear Inc., he tried a similar approach, recruiting another marketing hot-shot, Reebok International Ltd. veteran Mark R. Goldston, to help him salvage the athletic-shoe maker.

The second time has not been a charm. On Dec. 1, L.A. Gear announced it would lose about \$80 million for the fiscal year ended Nov. 30, including \$30 million in the fourth quarter. And contrary to last spring's assurances by Gold, its chairman and chief executive, the company is unlikely to climb out of the red at least until the second half of the new fiscal year.

Until recently, Gold's problem was overflowing inventories—he simply had too many low-quality shoes to sell. But in focusing on clearing out the warehouses and revamping shoddy manufacturing, Gold and Goldston neglected to come up with enough new shoes for 1993's first half. Gold and Goldston declined to comment for this story, but one shoe buyer for a large department-store chain says: "We saw Nike and Reebok [spring lines] in May or June and started committing for product in July. We didn't see L.A. Gear's product until mid-August." And reluctant retailers who got burned once by L.A. Gear's discounting frenzy are not rushing back into the fold. "We are trading very lightly," says a buyer for a large sports specialty chain.

Slow sales could plunge L.A. Gear into another cash crisis. Gold now is working with Kidder, Peabody & Co. on

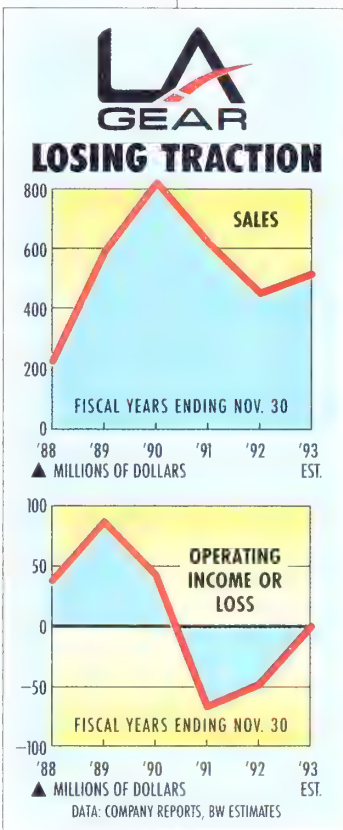
arranging a private placement of \$50 million in debt, says a source close to the company. So confident is he of success, says the source, that in November he terminated a \$150 million revolving line of credit from Bank of America. BofA had put tight restrictions on the company's use of its \$85 million in cash, some of which Gold wants to use to buy up his European distributors. Nike Inc. and

Reebok have been doing exactly that, allowing them to cut prices to retailers.

SHINING LIGHTS. There are some encouraging signs for Gold and Goldston, who has trumpeted his expertise in a recent book titled *The Turnaround Prescription*. The pair have moved quickly to settle L.A. Gear's legal difficulties, in July reaching a settlement of three shareholder suits. The cost: \$22 million in cash and stock. And with the company's assistance, shareholders are close to settling similar suits against founder Robert Y. Greenberg, who's now selling Doc Martens, the clunky black boots and shoes that are *de rigueur* among teens and twentysomethings.

Once L.A. Gear gets past the spring selling season, it could see an improvement in profit margins. Operating expenses for fiscal 1992 fell by a third, to about \$150 million. And the shoemaker can take some comfort from a couple of hits, including L.A. Lights, a kids' shoe with a heel light that flashes with each step. Critics scoff, however, at L.A. Gear's attempt to use the same gimmick in a high-performance cross-training shoe. "That certainly isn't anything adults are interested in," says Reebok Marketing Vice-President John Morgan. If L.A. Gear can't come up with a steady-selling sneaker line and get out of the cycle of fads and fashions, all of Tinkerbell's magic dust may not do any good.

By Amy Barrett in Los Angeles





PUTTING A SHINE ON THE GOLDEN YEARS

As boomers demand better security, employers spruce up 401(k) plans

The New Year is going to be a more prosperous one for employees of Atlanta's Cox Enterprises Inc. The media conglomerate recently took heed of a survey of its employees and decided a change was in order for the company's tax-deferred, employer-assisted 401(k) plan. So come January, Cox will shorten the waiting period to join its plan, increase the amount it matches employee contributions, and up the portion of salary workers can sock away before Uncle Sam lays claim to it. "For our people to have a comfortable retirement and to maintain a standard of living, they needed to defer more money," says Susan Mackenzie, savings-plan director at Cox.

In a way, Cox is just bowing to the inevitable. The Labor Dept. recently issued new rules requiring companies that offer 401(k)s to give their employees more choices and more information about fund performance and administrative fees.

FULL SPREAD. Whether the prodding is coming from the government or employees, companies are starting to respond. A recent Bankers Trust survey of 171 companies—with 5 million employees and \$135 billion in 401(k) assets—found that employers

across the nation were offering a broader range of investment choices, such as aggressive-growth and international equity funds; affording employees more liberal exchanges among different investments; increasing the amount of the company's match; and installing toll-free numbers that workers can call to gain information about their accounts.

Another key change: While giving employees greater flexibility, an increasing number of companies are off-loading the management of the plans and putting more of the cost on employees themselves.

The fast-growing popularity of the 401(k) is driving all the changes. Aging baby boomers, worried about the long-term health of Social Security and the stability of corporate pensions, are pour-

ing money into their accounts. By the end of the decade, total 401(k) assets should reach \$1 trillion, with many individual account balances well into six figures. The average account balance has nearly tripled to \$30,000 in the past five years, according to a Bankers Trust survey. "It's sometimes surprising when we see average workers making \$20,000 to \$30,000 and find they have over \$100,000 in the plan," says Linda McEvoy, a savings investment planner at San Antonio insurer USAA.

The plans could grow even more popular as the choices increase, as Texaco Inc. found out. In 1987, the giant oil company placed its plan with the Vanguard mutual-fund family and added a "sweetener": It would match employee contributions with Texaco stock on a dollar-for-dollar basis. Now, 94% of eligible employees have a 401(k). "When we had the plan, [participation] was somewhere in the 80s," says Texaco Treasurer Robert W. Ulrich.

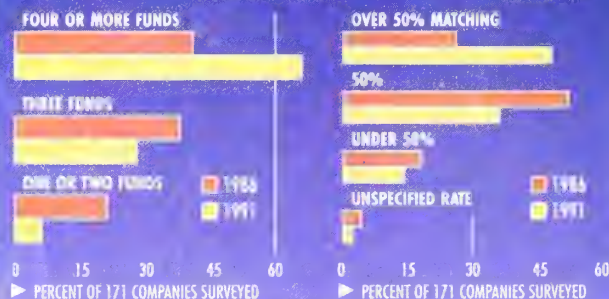
It's not just big companies that are polishing their plans. J. Baker, a specialty retailer in Readville, Mass., launched a 401(k) in January with just one investment option, a money-market account. Competitive pressure drove the decision. "A lot of our hires came from companies that had 401(k) plans, and they wanted to continue," says Benefits Manager Pamela P. Donovan. In September, Baker added a balanced fund and a stock-index fund.

'OBSOLETE.' Some smaller and newer companies never had a traditional pension plan in the first place. At Dell Computer Corp. in Austin, Tex., Richard Hodges, the benefits manager, calls defined-benefits plans, where employees receive a set retirement amount based on company contributions, "expensive and rapidly becoming obsolete." Dell matches workers' contributions with company stock—a growing trend among all employers. Workers then "have a stake in the company, which sensitizes them toward company goals," says Hodges. That's the company view. A professional portfolio manager, though, would caution against investing too much of the employee nest egg in a single stock.

It's all a far cry from 1974, when Congress changed the Internal Revenue Service code to spur new private-sector retirement initiatives. The success of the 401(k) plan proves that at least this time, Washington's tinkering is proving quite worthwhile.

By Tim Smart in New Haven with Karen Thurston Atlanta and bureau reports

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THAT'S UPBEAT, NOT BEAT-UP

From Washington to Wall Street to Hollywood, the zeitgeist changed in '92

All right, sit down. Once again, BUSINESS WEEK's trend-meisters have pressed their fingers to America's pulse, and here's what we've found: The country is in a good mood. Maybe it's temporary, brought on by a post-election flush of good feeling. But consider: Vision is in again, as

are 15-year mortgages and savings bonds. Can ideals be far behind? Comedian Jerry Seinfeld and Barney the Dinosaur (theme song: "I love you/you love me/we're a happy family") are hot. Gloomy CEOs and regal Brits are out. Hey, isn't that the bus from Hope pulling into town?

WHAT'S IN

POLITICS & ECONOMICS

Investment
Vision
First Lady lawyers
Lloyd Bentsen
Michael Kinsley
Latin America
Rhodes scholars
Managed care
Teledemocracy
Socks

WHAT'S OUT

Consumption
The vision thing
First Lady grandmas
James Baker
George Will
Europe
British Royals
Extra lab tests
Photo ops
Millie

BUSINESS

Optimism
George Steinbrenner
Reengineering
Virtual corporations
Core competencies
Bloomberg Business News
Muni-bond funds
401(k) plans
Series EE savings bonds
Managed trade
Silicon Valley
Wrist braces
15-year mortgages
Separate CEOs, chairmen

SOCIAL TRENDS

Jeffersonian populism
Jerry Seinfeld
Barney the Dinosaur
Denzel Washington
MTV's Tabitha Soren
Dracula
Corelle
Caffe Latte
Goatees
Nickelodeon
Garage sales

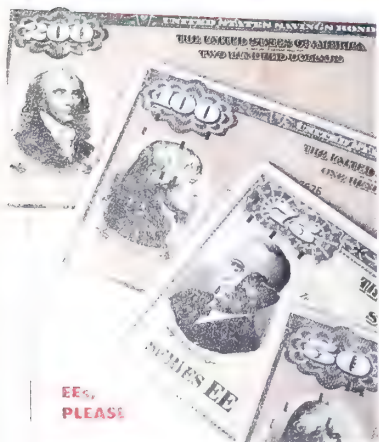
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Woody Allen
Big Bird
Bruce Willis
Meet the Press
Batman
Fiestaware
Cappuccino
Sideburns
Fox
Consumerism



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HILLARY: FIRST CAREER LADY



EEs, PLEASE



QE2: JUST ANOTHER TAXPAYER?



WOODY: YESTERDAY'S NEBBISH



THE HOMESTEAD: CRONY CENTRAL

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Today, sophisticated investors are using derivatives to enhance returns in a variety of ways. By hedging downside risk. By combining risk protection with upside potential. By making tactical adjustments without having to buy or sell securities. You can swap bond coupons for equity dividends. You can diversify into foreign markets. Even hedges can be hedged. But to reap the full benefit of today's complex and changing derivative products, you should turn to a firm that offers objective analysis, in-depth market knowledge, technical expertise, capital strength. These are the qualities that have made J.P. Morgan a global leader in the full range of derivative products.



Managing an investment portfolio can be time-consuming and labor intensive. Derivatives don't transform the basic task, but they can make the process tangibly more productive.

JPMorgan

EDITED BY HARRIS COLLINGWOOD

SMILES ON MADISON AVENUE

After a horrid 1991 and a slightly less horrid 1992, the advertising business is poised for rebound in the coming year, predicts ad agency McCann-Erickson Worldwide. The shop expects total U.S. advertising to expand 6.9% to \$141.2 billion. Here's the local and national spending outlook for the major advertising media

Ad medium	1993 spending Millions	Percent change from 1992
NATIONAL		
Broadcast	\$24,175	5.7%
Print	11,515	6.8
Direct mail	27,360	7.5
LOCAL		
Newspapers	\$29,440	8.0%
Broadcast	16,135	7.8
Yellow pages	8,465	4.0

DATA: MCCANN ERICKSON WORLDWIDE

BOEING ENGINEERS DIG IN THEIR HEELS

► These days, most aerospace engineers would be happy just to keep their jobs. But Boeing's 17,000 unionized engineers and technicians in Seattle are playing hardball. Some 70% voted to reject the three-year contract union leaders negotiated with Boeing and authorized a strike. Management isn't budging from its offer. Since many of Boeing's customers want to delay plane deliveries, it could probably weather a strike. The engineers, by contrast, have no strike fund.

NOW, LOCKHEED IS NO. 2

► Consolidation of the defense industry picked up steam on Dec. 9, when Lockheed said it

would buy General Dynamics' fighter aircraft division for \$1.5 billion in cash. The sale, rumored for weeks, will boost Lockheed's annual revenues by \$3 billion, to \$10 billion, and make the company the No. 2 Pentagon contractor after McDonnell Douglas. Lockheed, which makes the F-117 fighter-bomber and U-2 spy plane, will gain the majority share in the Air Force's F-22 stealth fighter and the long-running F-16 fighter.

For its part, GD is sitting on a dwindling pile of assets. Already this year, GD has sold its Cessna Aircraft division and its missile business. Next up could be the sale of the Electric Boat submarine unit to Tenneco.

REVERSING A PRATT FALL?

► Karl Krapek has led turnarounds at Pontiac and at United Technologies' Otis Elevator and Carrier. But the job Krapek got on Dec. 8 makes his other assignments look like spring training. UTC President George David has called on Krapek, 44, to take the reins at UTC's deeply troubled Pratt & Whitney unit, a maker of jet engines that is in the midst of a massive corporate overhaul prompted by a sharp drop-off in orders from plane makers.

Krapek will have to accelerate the shuttering of aging plants, modernize manufac-

'HO HO HO. SEE MY SECRETARY. HO HO HO'

Santa Claus: jolly embodiment of the holiday spirit? Or hard-nosed time manager? Wait, you're right on both counts. This Christmas season, suburban Chicago's popular Woodfield Mall offered kids the chance to book five-minute appointments with St. Nick. The trial program, which ended on Dec. 6, proved so popular, says Marketing Director Paddy Buratto, that the mall plans to offer it next year all the way through Christmas.

The mall's general manager, Jim Linowski, hit on the idea a way to shorten the long lines of children and parents waiting to meet the great (some older kids might say gross) man. A five minutes gives bashful tykes time to get comfortable with Santa. "This way, other parents aren't glowering at a child who isn't moving along," says Buratto. And with up to 26,000 kids expected to visit Woodfield's Santa, up 3,000 from 1991, something simply had to be done about cycle time.



turing, and continue to reduce the work force—1,470 workers got pink slips four days after Thanksgiving. A further 3,300 will be gone by midyear. It's not a pleasant assignment, but based on his record, Krapek seems suited for it.

AN OFFICE GLUT HITS GERMANY

► The global commercial-property slump is finally arriving in Germany. Lease rates have slipped as much as 20% recently. With the German economy in recession, some markets are nearing the saturation point. In addition, the Bundesbank's high inter-

est rates are putting the screws to developers. In Berlin alone, projects in the works could quadruple office space by 1994.

Some bankers concede the slump is raising fears of growing loan losses. But they insist they won't suffer the fate of foreign competitors. "Germans haven't pursued the same speculative excess as the Japanese or British," says Michael Bullock, chief investment officer at Deutsche Bank's Morgan Grenfell unit.

HOME SHOPPING FINDS A BIG SHOPPER

► Home Shopping Network Chairman Roy Speer is selling a controlling stake in the video-shopping pioneer to Liberty Media for \$60 million cash and 4 million shares of stock. The deal is valued at \$150 million. Liberty was spun off in 1991 from Tele-Communications Inc. and owns cable systems and programming, including a minority stake in HSN's rival, QVC Network. John Malone, chairman of Liberty and president of Time Warner, gains HSN's state-of-the-art telephone answering and switching system in his efforts to exploit the possibilities of interactive TV.



A LAME DUCK WHO'S SURPRISINGLY PRESIDENTIAL

He campaigned with all the class and polish of one of the Bowery Boys. But in his last days in office, George Bush has rediscovered *noblesse oblige*. Liberated by defeat, Bush has launched a final flurry of activity that has, for long last, broken the paralysis that gripped much of his Administration. Bush has acted decisively in dispatching U.S. troops to Somalia, maneuvered deftly on Asia policy, played hardball on trade, and rebuffed some of the loonier demands of the GOP's right. All this has long-time Bushies noting wistfully that if their man had governed with similar panache, he wouldn't be packing boxes today.

There's more to come as Bush winds up his term with one eye on his place in history. But, interestingly enough, the prime beneficiary of the late policy blitz may be Bill Clinton. Somalia is the kind of humanitarian intervention that liberals love. And by moving now, Bush has spared Clinton the need to dispatch U.S. troops abroad as one of his first acts in office.

That wasn't Bush's motivation. Instead, he was making clear that the U.S. remains the main force for policing the soon-to-be-renamed New World Order. Says top Bush aide Frederic V. Malek: "The President really believes there's no reason to be a superpower unless you are willing to do the right thing." In three valedictory addresses, the first on Dec. 15 at Texas A&M, Bush will argue for continued U.S. engagement in an unstable world.

NEW ACTIVISM. Bush is also sparing Clinton trouble on the trade front. The President will sign the North American Free Trade Agreement on Dec. 17. Some Hill Democrats hoped Bush would leave that chore to his successor. But inking the pact now makes it virtually impossible for Clinton to accede to congressional demands that he renegotiate the pact to strengthen labor and environmental protection. That leaves

Clinton to do what he really hoped to do anyway, which is tinker around the edges of the deal.

Elsewhere on the trade front, Bush's new activism has also helped Clinton's cause. By forcing Europeans back to the bargaining table on agricultural issues with the threat of tough retaliation against France, the President revived chances for a global trade pact. Months of wrangling remain, but Clinton will be positioned to claim credit for an accord that will be mostly George Bush's doing.

Bush has been equally busy tidying up affairs in Asia. He may ease trade restrictions on Vietnam, clearing the way for U.S. business to begin overtures in a big new market.

Clinton, whose draft record is a sore point, would have found it tough to make the first move on normalization. Bush has also responded to Taiwan's craving for U.S. attention by dispatching Trade Representative Carla A. Hills to Taipei. Her trip sent a hint to China that Washington's patience with the slow pace of political reform is limited. And it could help U.S. companies win more of Taiwan's \$300 billion public works program.

On domestic matters, Bush seems to have returned to his moderate roots. He ordered new food-labeling guidelines, brushing aside objections from the meat industry. He has thrown swamp water on Dan Quayle's plan to weaken wetlands protections. Quayle's suggestion that Bush nullify the Iran-*contra* trial of former Defense Secretary Caspar W. Weinberger with a pardon met a similar fate.

Doing Bill Clinton a favor may have been the last thing on Bush's mind as he ties up the loose ends of his Presidency. But in polishing his own legacy with a final flurry of activity, Bush may just make it possible for Clinton to do what he really wants: maintain a single-minded focus on the economy.

By Douglas Harbrecht and Paul Magnusson



OFF TO SOMALIA: A HUMANITARIAN INTERVENTION

CAPITAL WRAPUP

THE HOUSE

After giving at least a few minutes' thought to the idea of trying to increase their influence by cooperating with the new Administration, House Republicans have come down firmly on the side of confrontation. The clearest signal came on Dec. 7, when the House GOP caucus voted to oust Jerry Lewis of California as chairman of the Republican Conference, the No. 3 leadership post, in favor of Texas conservative Richard K. Armey. Armey won by promising to use in-your-face politics against the Democrats. But the former economics professor is more than a mere bomb-thrower. He won the re-

spect of colleagues in 1988 when he devised the procedure that cleared the way for large-scale closing of military bases. He also has led a bipartisan effort to cut farm subsidies.

ADVICE

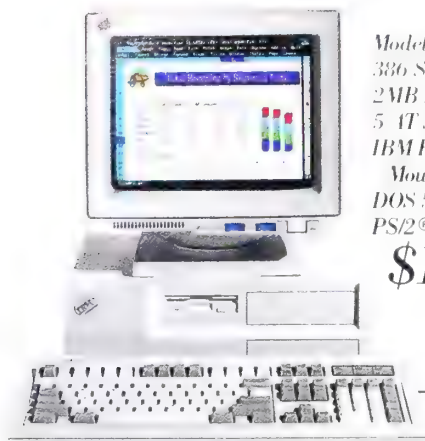
When Bill Clinton rolls into Washington for his inauguration on one of the buses that became a symbol of his campaign, he'll be riding with expert advice. The Clintonites' informal bus consultant has been Allen H. Neuharth, retired chairman of Gannett Co. During the '80s, Neuharth regularly toured the nation in a custom coach and reported on the "buscapades" in his *USA Today* column.

POLITICS

George Bush probably won't play an active role in politics after leaving office. But his candidate is emerging as the favorite to win the chairmanship of the Republican National Committee in January. Spencer Abraham of Michigan, executive director of the GOP's congressional campaign committee, is backed by both Bush-Quayle forces and Senate Minority Leader Bob Dole (Kan.). Haley Barbour of Mississippi is pushing himself as an outside-the-Beltway choice who would appeal to the vital Southern constituency. Ex-Army Secretary Howard H. "Bo" Callaway is a dark horse.

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Computers that do p for practi

any American campaign would try to have China's \$15 billion trade surplus with the U.S. In mid-November, China announced a \$2 billion purchase of U.S.-made computer-chip-manufacturing equipment.

But Hong Kong is just too close for comfort. Indeed, Hong Kong officials report that some 10 million viewers in southern China tuned into Patten's speech via satellite when he announced his reforms. Fully 97% of those interviewed in Guangzhou and Shenzhen have heard of Patten, while only 67% could name their own provincial governor, according to a telephone survey by Hong Kong newspaper. "The Chinese government is concerned that the British will use Hong Kong as a base to create trouble to subvert the present regime," says an expert at a leading Beijing think tank.

The irony is that while Hong Kong politics rattle the leadership in Beijing, China is opening elsewhere as never before. Leaders have begun open the doors to foreign investment, and a record \$31 billion has flowed in this year. Some 30,000 Chinese students have studied in the U.S. since the Tiananmen Square massacre. Even top Chinese officials are signaling a readiness to change. Hu Shi, a member of the Politburo's inner sanctum and head of China's secret police, said on Dec. 4 that China should learn from the West in amending its constitution to "benefit the development of a democratic legal system."

COMMON GROUND. If China backslides in Hong Kong, its fragile progress would count for little. Already, the China-Hong Kong spat is spurring fresh calls in Congress for tougher trade terms. And if reports that China has shipped M-11 missiles to Pakistan prove true, the U.S. may insist on retaliation.

But Patten and Beijing do share some common ground. Early next year, Patten will head for Washington to lobby vigorously for unconditional MFN status for China. There is also some wiggle room in his democracy plan. His ideas are proposals, not "decisions," he says. Ultimately, it is up to Hong Kong's Legislative Council to vote on the extent of reforms early next year. If they are watered down to pass muster with Beijing, Patten could still claim victory, having let the locals cast the final vote. That would be enough to allow Britain to pull out of its last major colony with a clear conscience.

By Joyce Barnathan in Hong Kong

'I'M KEEN ON COOPERATION'

An interview with Chris Patten, the governor of Hong Kong

After just five months as Hong Kong's governor, Chris Patten sparked a row with China by pressing for more democracy in the British colony before Beijing takes over in 1997. The Chinese flatly rejected the move and threatened reprisals, including the revocation of the 1984 Sino-British treaty on the future of the colony. In his stately mansion, Patten answered questions from BUSINESS WEEK Editor-in-Chief Stephen B. Shepard, Assistant Managing

system and Hong Kong's success is sometimes insufficiently recognized. I don't think Hong Kong would have as audacious and successful an economic future if that rule of law was corroded.

Q Do you think the Chinese strategy now is to try to make you effectively a lame duck by frightening everyone into voting down your proposals?

A I'm not sure that they want to make me a lame duck. I'm keen on cooperation. I do think that Hong Kong wants a modest increase in its ability to shape its life, its future. It's not part of some great, elaborate plot or threat to the mainland.

Q Some congressmen are urging the Clinton Administration to link China's most-favored-nation trade status with progress on democracy in Hong Kong. Would that devastate Hong Kong economically?

A It would be spectacularly eccentric and perverse to take it out on Hong Kong. I will be lobbying in the States

early next year in favor of unconditional MFN. I will be doing that as a matter of principle because I don't believe in politicizing trade.

Q How would you advise the new Clinton Administration on dealing with Beijing?

A All that I would say is that I don't believe disengagement as a policy ever works, except in extreme circumstances.

Q What does work with China?

A I think the expression is constructive engagement.

Q Are you going to back off on your proposals?

A It would be difficult. I am wholly open-minded about other proposals which seem better or more acceptable. However, we will have to make a decision soon.



AMONG THE PEOPLE: A ROW WITH CHINA WAS 'INEVITABLE'

Editor Robert J. Dowling, and Hong Kong Bureau Chief Joyce Barnathan.

Q The question is why now? Your predecessor had five, six, seven years since the treaty was signed. Nobody pushed for democracy.

A The issue is, what precisely should be the arrangements for the last elections under British sovereignty in 1995? The position of the United Kingdom was that there should be an increase in the number of directly elected seats. The position of China was there shouldn't be... I took the view that we were inevitably going to have an argument, so we were better off having it as far ahead of 1997 as possible.

Q One senses that Hong Kong's business community doesn't understand and appreciate Britain's efforts.

A I think the relationship between the rule of law and a clean administrative

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THE RISING SONS SHAKING UP JAPANESE POLITICS

Once or twice a week, some 30 Japanese Dietmen troop in for breakfast at the dignified Capitol Tokyu Hotel in Nagata-cho, Japan's political district. Over miso soup and grilled fish, they hear a lecture from an outside expert and discuss hot topics such as the recent election of Bill Clinton in the U.S.

This relatively young bunch of parliamentarians seems destined to shake up Japanese politics. Calling themselves Reform Forum 21, they're set to become the sixth and newest faction of the ruling Liberal Democratic Party. These factions dominate Japanese politics through votes in the Diet and the funds they supply to candidates.

ROUGH LINE. Reform Forum 21 is the first serious effort to wrest control from the old men who have dominated the political scene since World War II. "Young people in the DP are very eager to get out from the control of their seniors," says Satsuki Eda, a respected opposition Dietman.

This generational shift is being spurred by the mammoth, still-unfolding Sagawa Kyu-in scandal that has linked leading politicians to illegal payoffs and gangsters. The younger leaders, such as Reform Forum 21 co-founders Tutomu Hata and Ichiro Ozawa, are different from their elders. They dream of a more globally assertive Japan. They think such a change requires a cleaner government respected by its people. They also feel less beholden to the U.S. "It is finally time for a truly equal U.S.-Japan partnership," declares Kazuo Aichi, Reform Forum 21's policy chief.

If the new faction's views take hold, there could well be clashes with Clinton, who seems likely to take a tougher line on Japan. But Clinton might also appreciate Japanese leaders who speak clearly and take initiative.

The stature of Reform Forum 21's founders gives it a real shot at having a lasting impact. Finance Minister Hata, 57, is

a smooth, widely respected politician long viewed as a potential prime minister. Ozawa, 50, is a savvy, rough-and-tumble former secretary-general of the LDP. He's the true power behind what will be called the Hata faction.

The two started down this road when they recently led a walkout from the once-dominant but now scandal-ridden Takeshita faction. The move has thrown the LDP into turmoil and threatened the position of the urbane but weak 73-year-old Prime Minister Kiichi Miyazawa, whom the Takeshita crowd put in power. Right now, Miyazawa is deliberating over whether to include anyone from the new faction in the Cabinet he is expected to name soon.

The Prime Minister badly needs powerful allies. Leading political analyst Minoru Morita believes the current disarray will prevent Miyazawa from getting his budget passed next spring. That could crimp the economic recovery expected next year. It could also force elections that the LDP would have trouble winning—especially if Hata and Ozawa form a new party, as Morita expects.

FRICION AHEAD? If they go that far, they would probably be joined by some young Dietmen from other factions and the opposition parties. They may also attract the support of a new, grass-roots reform movement led by well-known management consultant Kenichi Ohmae. Japanese political circles are buzzing with talk of a coalition government that would pave the way for either Ozawa or Hata to become prime minister.

A more decisive government is just what many Westerners have urged on Japan for years. But one wonders how comfortable Washington and Europe would really be with a Japan that, for example, throws its weight around more in Asia and demands a seat on the U.N. Security Council. That's the sort of Japan the younger generation wants.

By Robert Neff in Tokyo



TURMOIL IN THE DIET

GLOBAL WRAPUP

RUSSIA

For Russian President Boris N. Yeltsin, it was the biggest blow since he took office 18 months ago. On Dec. 9, hard-line members of the Russian Congress of People's Deputies beat back Yeltsin's attempt to win confirmation of radical economist Yegor T. Gaidar as Prime Minister. Gaidar lost by only 19 votes. But the decision shows just how much opposition there is to Gaidar's painful, shock-therapy reform policies. Furthermore, it leaves Yeltsin in a much weakened position and could jeopardize negotiations with the International Monetary Fund on billions of dollars in aid.

Yeltsin could now be forced to shuffle his Cabinet. Increasingly likely is the dismissal of Foreign Minister Andrei Kozyrev, who has been criticized for being too pro-American. The congress vote against Gaidar is doubly bad because Yeltsin fought hard for compromise. To win votes for Gaidar, he agreed to give the Russian Parliament a veto on candidates for ministers of foreign affairs, defense, security, and internal affairs. The congress quickly snapped up Yeltsin's offer, but it voted to dump Gaidar anyway. In another compromise move, Yeltsin decided against asking the congress to renew special powers he had gained a year ago to issue economic reform de-

crees without parliamentary approval. Now the Russian President faces a winter of parliamentary battles over issues such as the 1993 privatization program, credits for flagging enterprises, and tax policy.

But Yeltsin hasn't given up the fight. He is expected to keep Gaidar on as acting Prime Minister for three more months—as Russian law allows. Gaidar has held that post since last spring. The extra time would give Gaidar the chance to stave off hyperinflation and privatize a significant chunk of state industry before leaving office. With such a privatization program in place, it would be much more difficult for hard-liners to turn back Gaidar's reforms.

HOWARD STERN'S BOSS GETS AN EARFUL

Infinity has been heavily fined. Now, its licenses are on the line

Howard Stern tapes paper over the windows of his New York studio to prevent curious staffers from gawking at him while he broadcasts. The way things are going, his boss, Mel Karmazin, may want to borrow Stern's tape for his own office.

Until recently, Karmazin had mostly avoided the controversy over Stern and his bathroom-wall jokes about everything from Pee-wee Herman's sex habits to the crisis in Somalia. Now, though, the unassuming president of Infinity Broadcasting Corp. is in a high-stakes showdown with the Federal Communica-

It's all very distracting for the 49-year-old former ad salesman, who has doggedly built Infinity into an industry giant. With 18 FM and AM stations, Infinity is the largest U.S. company devoted exclusively to radio (table). And Karmazin is the only entrepreneur who has seized on the FCC's recent decision to boost the number of stations one company may own. He just plunked down \$113 million for stations in Chicago, Boston, Atlanta, and Philadelphia.

JOCK LOCK. But Stern's smutty mouth could jeopardize all that painstaking work. Industry experts say the FCC rare-

abled Karmazin to boost WFAN's rates by 15%. "Mel is one of the best operators in the radio business, if not the best," says Herbert McCord, who runs a radio group backed by Kohlberg Kravis Roberts & Co.

Millions of listeners thrill to Karmazin's brand of radio. When Stern joined Infinity's WXRK-FM in New York in 1989, it was No. 21 in the morning ratings. Last fall, it was No. 1. At Los Angeles station KLSX, where Stern is syndicated, his show is No. 1 though it airs on tape delay and his remarks about Angelina Jolie are not always generous. In November, 1991, for example, Stern said he wanted to "strip and rape" the DJs at a rival L.A. morning show.

For Karmazin, Stern is the centerpiece of a remarkably simple strategy. He buys only stations in major markets because they have high profit

margins. And he pays top dollar for big personalities. Otherwise, Karmazin runs an exceedingly lean shop: His entire corporate staff consists of seven people. As a result, Infinity boasts an operating margin of 45%. Drew Marcus, a radio analyst at Alex. Brown & Sons Inc., estimates that Infinity will earn operating income of \$68 million on revenues of \$150 million in 1992. That's an 11% earnings gain in a still-depressed industry.

UNKIND CUT. These days, though, Karmazin worries more about lowbrow remarks than high finance. He stoutly defends the inflammatory Stern, who commands premium ad rates. As for his brand of humor, "we believe it is OK to be outrageous," Karmazin explains. "But we're not looking to thumb our nose at the FCC." Even he winces, though, when he recently heard Stern say on the air that he prayed that the prostate cancer of FCC Chairman Alfred C. Sikes would spread. Sikes insists the remark had no influence on the FCC's ruling, though at least one other commissioner is furious at Stern.

No wonder Karmazin is determined to put the dispute behind him. He pledged to abide by FCC rules so long as he knows exactly what the commission prohibits. But he draws the line at censoring Stern: "That's why they make on-air buttons," he says. For now, Karmazin is betting that Stern's blue humor is still worth pure gold.

By Mark Landler in New York, with Mark Lewyn in Washington



KARMAZIN: CA



LOOSE LIPS: THE FCC IS LISTENING

tions Commission over whether Stern violated its decency rules.

On Dec. 10, the FCC was set to slap Infinity with several hundred thousand dollars in fines for allegedly indecent remarks made by Stern on three of its stations. Even more serious, the commission was to warn Karmazin that if Stern steps over the line again, it could move to revoke some or all of his stations' broadcast licenses. Karmazin plans to appeal, and observers expect the case to become a litmus test for what "shock jocks" such as Stern can get away with. "We would certainly like to see this go away," says Karmazin wearily.

INFINITY'S BROAD HORIZONS

OWNS

18 FM and AM stations in top markets such as New York, Los Angeles, Chicago, Philadelphia, and Boston

FEATURES

Popular radio personalities such as Howard Stern, Don Imus, and Doug Tracht

INDUSTRY RANK

No. 4 after CBS, Group W, and ABC

1992 RESULTS*

Revenue: \$150 million Income: \$68 million

*Estimates; income represents earnings before interest, depreciation, and amortization of debt

DATA: COMPANY REPORTS, ALEX BROWN & SONS

ly threatens to revoke broadcast licenses. And losing any of them would be a body blow to Infinity. The company went public in January, and its stock has risen steadily, to a recent 25, from its offering price of 17½. Still, investor confidence in Infinity could be sorely weakened if the dispute escalates.

One thing Wall Street certainly applauded was Karmazin's purchase of WFAN-AM in New York for \$70 million in April. The all-sports station is home to acid-tongued radio personality Don Imus. Along with Stern, he gives Karmazin a lock on the two most celebrated jocks in New York radio. And that en-



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DURACELL LOOKS ABROAD FOR MORE JUICE

With 79% of the market, its U.S. growth potential is limited

Most chief executives fret over their stock offerings, but C. Robert Kidder, the CEO of Duracell International Inc., was especially antsy when his company went public on May 2, 1991. And with good reason. A leveraged buyout led by Kohlberg Kravis Roberts & Co. three years before saddled Duracell with \$1.6 billion in debt. The interest payments—\$226 million in 1990 alone—were eating up profits. A successful initial public offering was the quickest way the battery maker could get back into the black.

Nowadays, Kidder is resting easier. Last year's IPO, combined with a subsequent offering five months later, raised \$563 million, enough money to reduce Duracell's debt load to roughly \$1 billion. Even better, Duracell finally began making money. After three straight years of disappointing results, Duracell reported a net profit of \$128 million in the fiscal year ended in June. Merrill Lynch, Pierce, Fenner & Smith Inc. analyst Deepak Raj expects profits to soar 37% this year, to \$175 million, on sales of \$1.8 billion, up 11%.

CRAMPED. With his balance sheet looking better, Kidder now has more time to focus on the daunting task of expanding Duracell's marketplace. The company's famed copper-topies, which supply power for everything from cameras to smoke detectors, command a 79% share of the \$3.2 billion U.S. retail market

for consumer alkaline batteries. But that dominance has left the company little room to grow. After improving every year since 1989, sales growth is slowing. In response, the company, based in Bethel, Conn., is searching for new markets overseas. At home, Kidder is pressing his researchers to develop a new generation of batteries. One promising

product: a long-lasting, rechargeable battery for such energy-thirsty products as laptop computers.

Whatever Duracell's current challenges, its future appears a lot more certain than it did in 1987. At the time, Kraft Inc. was eager to spin off its nonfood business, in part to raise cash and fend off a possible takeover bid. And that's when KKR stepped forward. Tapping into its network of institutional investors, KKR came up with \$365 million in cash and a plan to raise the rest of the \$1.86 billion buyout price by issuing junk bonds. Kidder and his management team contributed \$10 million to the deal.

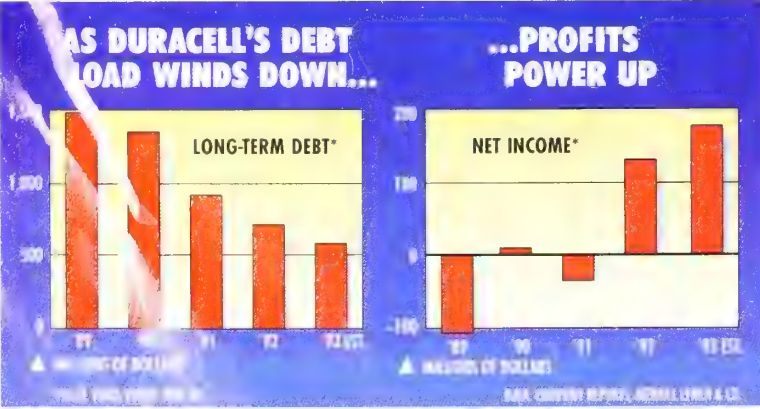
The 48-year-old Kidder, who has been CEO since 1984, insists that the partnership with KKR has been smooth. After the 1988 buyout, KKR virtually took charge of the company, running everything from accounting to corporate planning. But Wade Lewis, Duracell's chief financial officer, says that KKR's involvement in day-to-day operations has lessened considerably, thanks largely to Duracell's improving balance sheet. Long-term debt is now down to a manageable \$724 million (chart).

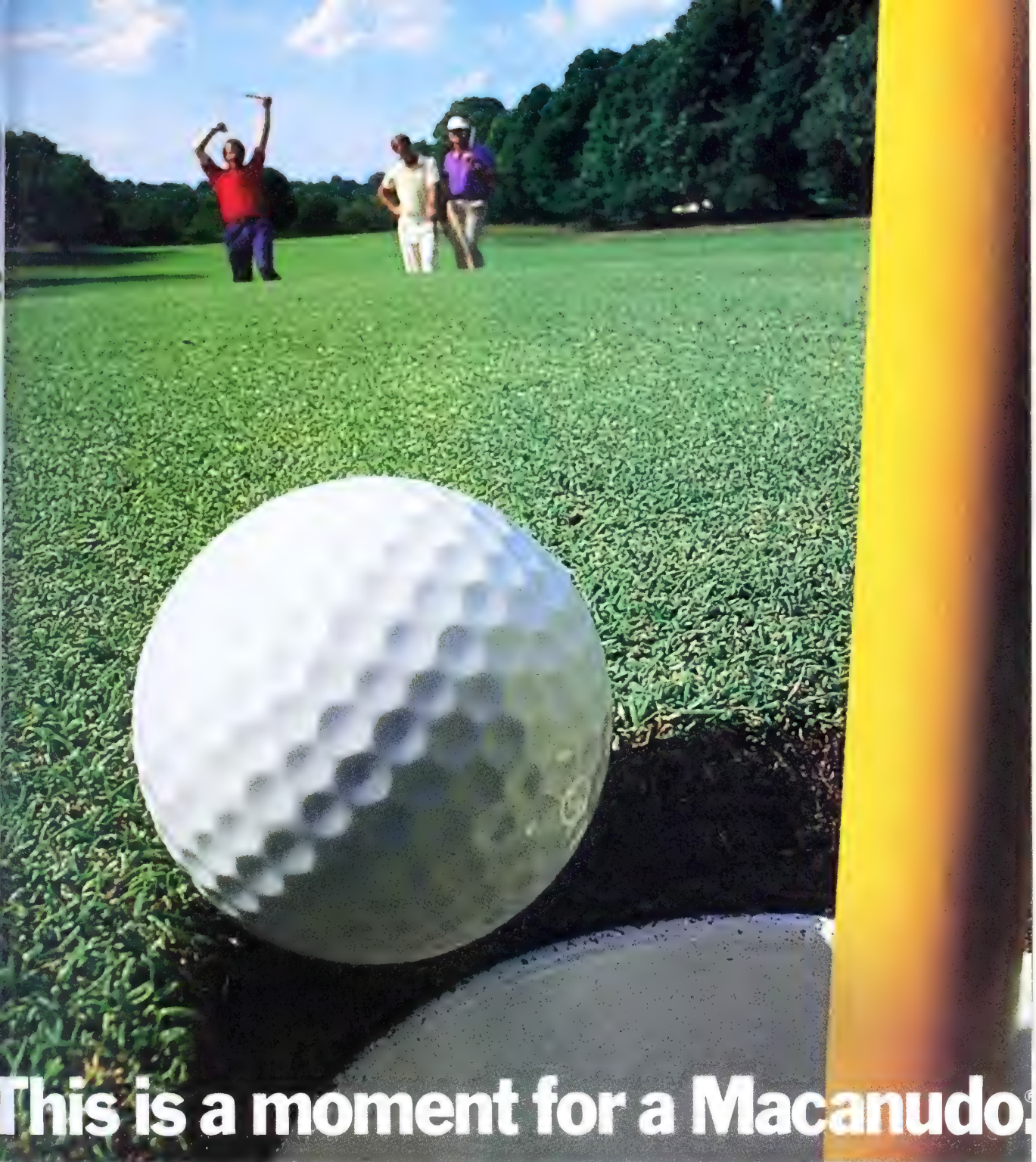
WINDFALL? That doesn't mean that KKR doesn't make its influence felt. The firm still owns 53% of Duracell's stock and holds five of its nine board seats. KKR won't talk in any detail about its relationship with Duracell, but George Roberts, a KKR principal, says Kidder and other top managers "consistently deliver on the ambitious goals they set for themselves." Duracell has certainly delivered for KKR. The firm's stake has a current market value of more than \$2 billion. And when many Wall Street analysts expect that KKR will one day book a huge windfall by selling its shares, few expect to exit Duracell in the near future.

Keeping Duracell growing—and its share price rising—won't be easy, however. True revenue from its alkaline



KIDDER WANTS TO PUSH INTO VIRGIN MARKETS SUCH AS EASTERN EUROPE





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battery sales in the U.S. rose a healthy 7% to \$821 million, in the fiscal year ended June 30. But much of that gain came from higher prices and a boost in sales after Duracell included a battery-tester device as part of its packaging in 1991. Marketing studies had shown that consumers wanted more than a freshness date on their batteries. Given the maturity of the battery market and Duracell's huge market share, however, U.S. sales growth is expected to slow to 5% in the current year, says analyst Jane Gilday of Tucker Anthony Inc., a securities firm based in Boston.

That means Duracell will have to do better overseas, where its growth has been lackluster. Kidder says Duracell can achieve better results by pushing into virgin markets in Eastern Europe. Earlier this year, it opened a sales office in Budapest. He also wants to popularize the brand in Asia. Duracell is teaming with a local competitor in a joint sales venture in Indonesia later this year. As a result of Kidder's push abroad, Gilday reckons that foreign sales will account for more than half of Duracell's revenues this year, compared with one-third in fiscal 1992.

CLEANER WASTE? Kidder, who has a degree in industrial engineering from the University of Michigan, is also betting that future growth is likely to come as much from new products as new markets. Duracell is developing a new generation of longer-lasting rechargeable batteries for portable consumer electronics. To help achieve his vision of a "cordless Duracell home," Kidder reached an agreement in January with international competitors, such as Toshiba Battery Co. of Japan and Germany's Varta Batterie, to develop standard battery packs for camcorders, cellular phones, and laptop computers that will use the new nickel metal hydride battery. The battery has up to 40% more life than existing nickel-cadmium batteries.

Duracell plans to roll out the new battery next year. Japan's Fujitsu Ltd. announced in October that it would use the Duracell batteries in its next generation of cellular phones. But it's still too early to say whether the battery will catch on with other manufacturers. "There's no consensus that nickel metal hydride is the way to go," says Erin Craig, corporate environmental programs manager for Apple Computer Inc. She cautions that the nickel metal hydride battery could present environmental problems.

That kind of skepticism is bound to be a bit unnerving. But Duracell's chief says worrying comes with the territory. And keeping his copper-top brand on top, Kidder confesses, is one challenge he's happy to be antsy about.

For Julie Tilsner in Bethel, Conn.

Science & Technology

SEMICONDUCTORS

CAN EUROPE SURVIVE THE CHIP WARS?

Under fire, the Continent's industry gives up on going it alone

Only a few years ago, Heinz Hagmeister had big dreams for Europe's semiconductor industry. Along with fellow Europeans, the chairman of Philips Electronics' chip division vowed to break U.S. and Japanese hegemony with the help of high tariffs, research subsidies, and tough local-content rules. But that formula only compelled U.S. and Japanese rivals to fight harder. Today, they span the European Community from Scotland to Italy, pumping billions into new factories and chip-design centers. With forces massing against the Europeans on their own turf, "we realize we can't do it all and have to rethink our strategy," says Hagmeister.

The battle brewing in Europe's \$12 billion chip market could dash once and for all the Continent's hopes for a fully independent technology base. Europeans have already been trounced by Japan in most types of memory chips and by the U.S. in microprocessors, two of the biggest product segments. In a last-ditch attempt, Europeans are scaling back ambitions and seeking alliances with American and Asian partners, who already have been teaming up with each other for years. But if these strategies fail, Europe's position as a power player in chips could atrophy to a niche role by the end of the decade.

The Europeans aren't crying uncle yet. Dutch leader Philips, Germany's Siemens, and Franco-Italian SGS-Thomson Microelectronics, often backed by heavy government subsidies, have too

much at stake. More than just a bid to cover Europe's dwindling chip market share, they say their survival is crucial to prevent some \$215 billion worth of European-made phone switches, TVs, and other electronic gear from sliding into dangerous dependence on foreign suppliers of v technology.

HEAVYWEIGHT. But as costs for new technology and manufacturing soared and reach and losses piled up, their combined world market share has dropped from more than 15% in the early 1980s to 10% last year (charts). To stanch huge losses, Philips and Siemens have cut back in memory chips and other cash-guzzling commodities. Instead, they're focusing on narrow targets where they're still strong, such as specialty circuits for communications and consumer electronics. Siemens' 1990 agreement to develop future technology with IBM—extended to Toshiba Corp. last summer—is now the model of things to come.

Only SGS-Thomson still holds on to the goal of becoming a full-range global heavyweight. In mid-November, it got a boost when its French and Italian government owners agreed to kick in \$1.8 billion over the next five years. "This is the last chance for Europe to maintain an indigenous semiconductor industry," declares Robert Heikes, an industry consultant. But insiders admit that will only buy two to five years to find a foreign partner that can help double SGS's world market share to the 5% needed to be a global player.

As the Europeans turn

EUROPE'S CHIPMAKERS FACE BLISTERING COMPETITION...					
	1991 RANK/SALES MILLIONS			1991 RANK/SALES	
	EUROPE	WORLD		EUROPE	WORLD
PHILIPS NETHERLANDS	1	\$1,144	10	\$2,022	
SIEMENS GERMANY	2	970	16	1,263	
SGS-THOMSON FRANCE	3	855	13	1,436	
MOTOROLA U.S.	4	776	4	3,802	
INTEL U.S.	5	765	3	4,019	
TEXAS INSTRUMENTS U.S.	6	632	6	2,738	
TOSHIBA JAPAN	7	\$441	2		
NEC JAPAN	8	405	1		
NATIONAL U.S.	9	400	11		
AMD U.S.	10	294	17		
HITACHI JAPAN	11	276	5		
SAMSUNG KOREA	12	242	12		

(ward for help, the opportunities—and risks—for Americans and Japanese are growing. Players such as Texas Instruments Inc. and Mitsubishi Electric Corp. are clamoring to do deals that could help boost their local sales. Others with no European fabrication facilities, such as Toshiba, Advanced Micro Devices, and Korea's Samsung, risk "rapid decline as better-positioned competitors gain the tactical advantage," warns Malcolm Penn, who is president of market researcher In- at Europe.

WEATHER HANDOUTS. With the industry entering a new shakeout, the EC and national governments are increasingly powerless to interfere. Since the late 1980s, the EC has levied antidumping duties and fixed floor prices for Japanese and Korean memory chips, eating breathing room for European as well as U.S. companies. But that, as well as local production rules and high import duties of 14%, only pushed companies such as Fujitsu, Hitachi, Mitsubishi, and Intel to set up shop inside the fortress.

At the same time, the EC's support for European chipmakers has taken a backseat to competing interests. To comply with the General Agreement on Tariffs & Trade, for example, the EC has agreed to reduce duties on imported integrated circuits by one-third, to 9%. Government-backed R&D programs have also come up short. The \$4.7 billion, seven-year Joint European Submicron Silicon Initiative (JESSI), launched in 1989 to bolster broad chip research, has been forced to retrench. The wife fell late last year: JESSI's budget was cut by 20%, and the effort was refocused on projects with immediate market payoff, such as chip designs for specific products, including mobile phones. Allocations even for 1993 remain uncertain.

With an end to government handouts

looming, Europe's chipmakers are working furiously to shape themselves up. In the past two years, SGS-Thomson has cut payroll 25%, to 16,800, and built up a respectable 13% world market share in a memory-chip line called electrically programmable read-only memory, or EPROM—a position essential to keeping SGS on the cutting edge of technology for other chips. After losing \$463 million since 1987, President Pasquale Pistorio sees a small profit this year on sales of about \$1.6 billion.

Pistorio: Even SGS-Thomson, Europe's best hope, is seeking foreign partners



Siemens is toughening up, too. Estimated losses of about \$300 million annually since 1990 in memory chips leave it no choice. Last May, it scrapped plans for a new factory for 64-megabit dynamic random-access memories (DRAM), signaling that it will no longer fight the Japanese and Koreans for market share after the current generation, now in production with IBM, winds down in the mid-1990s. Moreover, it will transfer all chip assembly from Germany to Singapore and Malaysia. "It's a matter of survival," declares Chief Operating Officer Horst Fischer.

FRENZY. Europe is banking on fast-growing application-specific integrated circuits, or ASICs, to help turn the tide toward long-term profitability. By 1995, Dataquest Inc. forecasts the worldwide market for such chips, customized for mobile phones, auto fuel-injection systems, and the like, will more than double, to \$13 billion.

Trouble is, everybody else is pouncing on the same targets. "ASICs is no place to hide," warns Heikes. Motorola Inc. has doubled European staff for designing automotive and communications chips in the past two years and recently put \$125 million into expanding production in Britain. Senior Vice-President Barry Waite expects European revenues to grow 20% this year, or twice the market rate. To match the Europeans on systems knowhow, Motorola

has struck up a slew of intimate joint-design deals with customers, such as with BMW for engine-control electronics, and even with Philips' own consumer division for new multimedia players.

Texas Instruments, however, is setting the pace. In its strategy to become customers' in-house chip company, TI next year will install and manage a pilot chip line at phone switchmaker L. M. Ericsson's Stockholm labs. Once designs are fine-tuned, manufacturing data will be shipped electronically to TI's Italian plant for quick turnaround of volume production. Three or four more major TI customers may copy the model. "This vertically integrated *keiretsu* concept for Europe will be hard to beat," brags Roberto Schisano, president of Texas Instruments Europe.

While Americans are making the most headway, the Japanese are coming on strong. Fujitsu, for example, has in the past year increased its staff of chip-design specialists in such hot telecom fields as digital mobile phones. NEC Corp. and Hitachi are pushing computer graphics and cordless phone chips specially designed to European standards. Toshiba Electronics Europe started assembling ASICs last spring at a site in northern Germany.

WAKING UP. Motorola's Waite estimates that Japanese-made

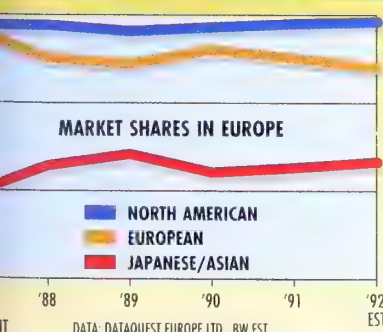
equipment in Europe, such as Sony TVs in Britain and Toshiba computers in Germany, will consume 20% of total European chip sales by the late 1990s, up from 5% today. Much of that business may well shift to Japanese chipmakers, taking their cues from Tokyo, as they build up local production. That's a threat to Europeans and especially to the Americans, who control 44% of the Continent's sales.

But the Americans and Japanese are well-positioned for the global game, having competed against and cooperated with each other for years. Today, they have global scale and strong technologies, plus much experience with alliances and up-close customer relationships. In contrast, the Europeans are only now waking up to the fact that their protective cocoon hasn't worked. "The European Community's efforts to protect the domestic industry are now null and void," declares Dataquest researcher James Eastlake.

That leaves the Europeans with no choice but to keep pushing painful cost-cutting steps while they scramble for the right alliances and strategies. If they are successful, it could help justify billions in research subsidies and, more important, preserve a narrower but still healthy European technology base. With rivals closing in at home, there's no more time to waste.

By Jonathan B. Levine in Paris

AND ARE LOSING MARKET SHARE AT HOME



EDITED BY OTIS PORT

THIS BUG WILL EAT FLUOROCARBONS BEFORE THEY EAT THE OZONE LAYER



○zone-damaging hydrochlorofluorocarbons (HCFCs) and hydrofluorocarbons (HFCs) have been considered just as nonbiodegradable as their CFC cousins, now widely used in refrigeration systems. So, they're regarded as only stop-gap substitutes for CFCs, which deplete the ozone more rapidly. While CFCs will be phased out by 1996, the Clean Air Act

also mandates that HCFCs and HFCs be discontinued by 2015.

However, Envirogen Inc. has found a microorganism that can digest certain HCFCs and HFCs, breaking them down into relatively benign chemicals. Envirogen President Roger J. Colley says his company, based in Lawrenceville, N.J., plans to develop biotech methods both for controlling emissions at production facilities and for cleaning soil or groundwater contamination caused by the chemicals.

JAPAN'S BIG PUSH TO BUILD CHIPS ATOM BY ATOM

The semiconductor industry really took off in Japan in the late 1970s after the Ministry of International Trade & Industry funded \$200 million of a catch-up program called the VLSI Project. Well, MITI is at it again. The ministry has just unveiled plans for another \$200 million push—aimed at nanotechnology, or techniques for building ultratiny semiconductor devices, in some cases atom by atom. The cast of characters is mostly familiar: Among those that have already signed on are Fujitsu, Hitachi, NEC, and Toshiba. But this time, MITI hopes that they will be joined by Texas Instruments, Motorola, IBM, and other U.S. and European high-tech companies. That's because \$200 million will just scratch the surface of the required investment.

One goal of the Atom Technology Project is to develop methods for building a memory chip that can store 16 billion bits of data. That's 1,000 times as many as the latest 16-megabit chips, which most suppliers won't produce in volume until next year. Such chips will require transistors so small that it would take several thousand to span the width of a human hair. The R&D cost of a 16-gigabit chip could run \$2 billion-plus, chipmakers estimate.

A NEW LCD COULD MEAN SLIMMER, LIGHTER LAPTOPS

To boost visibility, most laptop computers have a light behind the screen. But these backlit displays gobble power. That's why portable computers need heavy, bulky batteries that must be recharged every few hours. Now, slimmer laptops may well be in the offing, thanks to a new breed of liquid-crystal display (LCD) developed at Kent State University's Liquid Crystals Institute in Kent, Ohio. It relies only on reflected light, yet approaches the quality of backlit models.

LCD screens consist of thousands of tiny liquid crystals, each of which can be switched on or off to form halftone images. In backlit screens, the crystals display words by either blocking the backside light or letting it shine through. In the new display, the crystals are made from a material that is super-efficient at either reflecting incident light or "absorbing" it, scattering it in all directions. And each crystal stays bright dark until the display changes. Backlit LCDs drain more battery power because even a static image must be constantly "refreshed," or recreated. A color version is in the works.

AN ELECTRONIC SUPERMARKET FOR ALL THINGS DIGITAL

Since September, business on the Amix is up 92%. That's not a typo. Amix is short for American Information Exchange Corp., a Mountain View (Calif.) startup that hopes to fashion something akin to the American Stock Exchange: an electronic market for knowhow, where people can buy or sell anything digital, from fancy multimedia presentations to tips costing as little as \$1, on how to use programs.

To pull it off, Amix is pioneering a new dimension in on-line brokering: hypertext. By forging electronic links both within and among computer files, hypertext enables a shopper who is skimming a synopsis to summon further details instantly. A shopper who spots an interesting product description can tap a key to call up the seller's credentials—or comments from previous buyers—before hitting another key to make an on-line purchase. Amix debits the buyer's credit card and credits the seller's, less a graduated commission that works out to 18% on a \$500 item. Amix has focused mainly on brokering called object-oriented software and related programming tools. Next year, it plans to attract more subscribers—currently numbering under 1,000—by expanding into such fields as database management and computer-aided design. Amix costs \$50 a month plus connection charges, which vary widely.

PARDON ME, BOY, IS THAT A TRASH-COMBUSTION CHOO-CHOO?

Instead of dumping combustible waste in landfills, why not use it to power steam engines? Raymond S. Edwards, a solid-waste consultant, has developed a method of converting such trash—cardboard, newspaper, magazines, wood chips, and certain plastics—into a fuel that he says is cheaper and cleaner than coal.

While the recycled "coal" could be burned by steam-driven ships or generators, Thomas W. Blasingame figures that it's also just the ticket for bringing back steam locomotives. Blasingame, who runs a custom-design company in Boise, Idaho, is now looking for \$1.5 million to build a prototype, either a steam-powered electric model or perhaps an updated version of a locomotive that is directly driven by steam—a type of choo-choo that has been built in the U.S. since 1949. Arizona & California Railroad Co., a small freight line based in Parker, Ariz., says that it would like to try a prototype locomotive as soon as one can be built.





THE CEO ON THE CHANGING AMERICAN AGENDA

In just over seven years, the third millennium will begin. That awesome fact is sparking more than the usual interest in the future — both in the long-term prospects for our species, and in the immediate agenda for American leadership. ¶ For U.S. business leaders, deliberation on the future is increasingly driven by the breakneck pace of technological change, the globalization of markets, and the regionalization of competition. Referring to the “competitive clubs” already clustering around the globe, former Secretary of State **Henry Kissinger** says, “The world is moving rapidly into distinct economic groupings, into four or five equal power centers. To increase its bargaining



JAMES R. BORIS,
CHAIRMAN, PRESIDENT
AND CEO,
KEMPER SECURITIES, INC.:

"WITH PRIVATE ENTERPRISE DEVELOPING BRISKLY IN MEXICO, SOUTH AMERICA, AND CHINA, A STRONG TIDE IS SWEEPING TOWARD CAPITALISM."



BERT C. ROBERTS, JR.
CHAIRMAN AND CEO, MCI
COMMUNICATIONS
CORPORATION:

"CHANGE IS THE KEY TO REINVENTING A COMPANY, TO REFOCUSING STRATEGIC DIRECTION, AND TO MAKING THE BOLD DECISIONS NEEDED TO BE A WORLD-CLASS COMPETITOR."



GEORGE B. BENNETT,
CHAIRMAN,
SYMMETRIX, INC.:

"WINNING CEOs ENCOURAGE TO SORT WELL — TO FOCUS ON THE 'RELEVANT' AND IGNORE THE PLAUSIBLE BUT 'IRRELEVANT'."

position in this new lineup, the U.S. must be a leading member of a larger zone."

Dr. Kissinger delivered his strategic message to delegates at The 1992 *Business Week* Symposium of Chief Executive Officers held recently in Washington, D.C. At this fifth annual invitational forum, chief executives from many of North America's largest and most admired corporations spent two days exploring a host of ideas and strategies for securing the future of their businesses — and of the U.S. economy — in this time of uncommon risk and change.

SEIZING THE OPPORTUNITY

Not surprisingly, the foremost concern of these CEOs is how to rejuvenate the U.S. economy. Two crucial imperatives emerged. First, leaders of both business and government must respond fast and flexibly to the current challenges. Second, corporate leadership must explore and seize new market opportunities on a worldwide basis.

And recession or no, speaker after speaker saw opportunities aplenty.

David Hale, chief economist at Kemper Securities, Inc.: "With the fall of the Berlin Wall, the demise of Soviet communism, and the entrepreneurial revolutions underway in the Third World, we now have the first truly global free market economy since the end of the 19th century."

Similarly, **James R. Boris**, Kemper Securities' chairman, president, and CEO, says: "With private enterprise developing briskly in Mexico, South America, and China, a favorable tide is sweeping toward capitalism. That trend and the emergence of free trade open up vast possibilities for the U.S. economy."

The rebirth of the global market economy, Boris predicts, will create substantial growth and investment opportunities in the second half of the 1990s. "More countries will be seeking advice from the U.S. to provide them with suggestions for new financial structures as well as technological and strategic improvements."

George Bennett, chairman and CEO of Symmetrix, Inc., believes that the changes described by Dr. Kissinger and the Kemper executives are akin to "high winds and strong currents on the open sea." This envi-

ronment, he says, is propelling the most significant restructuring of corporate America since the Industrial Revolution. "Although political and economic turbulence can cause confusion in the global market," cautions Bennett, "smart CEOs will behave like seasoned sailors, knowing that unsettled conditions always favor the master navigator."

BUILDING ON BUSINESS STRENGTHS

Mastering change in telecommunications — no matter what the conditions — has become second nature to MCI Communications Corporation. In fact, **Bert C. Roberts, Jr.**, MCI's chairman and CEO, says he champions change constantly because "it is the key to reinventing our company, to refocusing our strategic direction, and to making decisions that are bold enough for MCI to remain a world-class competitor."

Roberts thinks two distinctive qualities create advantages for MCI: "One is the spirit of entrepreneurialism that has differentiated our company from the beginning. And the other is our ongoing determination to focus on the customer and to leverage the company's flexible organization for fast response."

Friends & Family, MCI's discount plan for residential customers, is an example of how these core strengths play out. Says Roberts, "It was born at a table where people from different units were brainstorming about how to build on MCI's advantages. We ended up pursuing companywide collaboration on the project since its rollout would trigger basic changes in our operation." Ten million people have already signed up for Friends & Family, and Roberts is convinced it succeeded because the idea was customer-focused.

THE ADVANTAGES OF SPEED

The 1990s have been touted by business pundits as "the decade of the value-driven consumer." Certainly consumers of that description have rocked the PC industry.

"The new PC customer emerged fast," says **Eckhard Pfeiffer**, president and CEO of Compaq Computer Corporation. "A few firms recognized the trend and exploited it, but Compaq, miscalculating, pinned its

future on high-performance PCs." It took two quarters for Compaq to learn the harsh lesson that only major change could get the company back on a winning track.

Once Compaq saw the need to transform itself, management moved quickly. "We embraced customer satisfaction as our leading business goal," Pfeiffer says. "With speed as the crucial piece of our renewal strategy, we directed the whole organization to discover new market opportunities, to develop innovative products, and to build new manufacturing capabilities. Only one proviso was imposed: Maintain the benchmark Compaq introduced to the market in 1982. 'In only nine months, we met our goals,'" recalls Pfeiffer.

His advice about corporate renewal is succinct: "Stay ahead of change by noting early signals. Welcome change, even if it means making hard decisions with painful effects. To reinvent your business, break away from the old mold. And, most important, move fast."

Executives who deliver results own "an economic compass pointing north," says Symmetrix's Bennett. "They identify the most competitive and profitable areas in their organization — what I call the relevant 20% of their business — and channel their energies in those directions. That enables them to sail through the change process at an accelerated pace and to generate impressive results for their companies."

CONTAINING HEALTH CARE COSTS

Americans will spend \$800 billion on health care in 1992. Can we balance this unlimited demand for health care against our finite resources without adopting some form of national policy? For **Sylvester Schieber, Ph.D.**, director of research and information at The Wyatt Company, the staggering statistics demand a national debate of that question. "Clearly, CEOs can't afford to sit on the sidelines of such a debate," says Schieber. "Otherwise a policy will emerge they won't like and can't support."

Looking at the skyrocketing costs, Schieber says, "We can't continue to shift resources to health care at current and projected rates and expect compa-

nies to grow. For starters, we won't be able to allocate resources to other forms of compensation — salaries and pensions, for instance — at globally competitive levels."

William K. Coors, the chairman and president of Adolph Coors Company, urges CEOs to help fix the health care system by first insisting that the industry provide a quality assessment of itself. "We need to know exactly *what* we are buying, *who* the good providers are, *where* the best care is, and *how* to direct our employees to the superior facilities. That is called *directed managed care*," Coors believes, too, that the insured must take responsibility for minimizing their health care consumption. Endorsing incentives for the practice of prevention by both providers and consumers, Coors says, "We must all orient ourselves toward the preservation of health."

Coors also agrees with Schieber, who argues that the fundamental issues in health care are *allocation* and *control*. "Allocate by policy — no matter what the policy. Then give attention to the seven areas of control: access, cost, utilization, quality, technology, choice of coverage, and insurance regulation." Schieber believes that how a nation chooses to position itself in these areas will determine, in fact, whether it will do a better job of providing cost-efficient health care for all its people.

RETHINKING CORPORATE GOVERNANCE

Stories about CEO pay and possible SEC regulation of executive compensation were headlining the news on the day of this symposium. But **Jay Lorsch**, professor, Harvard Business School, said, "The public interest in corporate governance is stemming mainly from the lackluster performance of many once-great American companies — not from the news about highly paid officers."

Lorsch's view is supported by a Council on Competitiveness study that found widespread evidence of a connection between the performance problems of some U.S. companies and *the system of relationships* among their owners, directors, and managers.

"Corporate governance has to be evaluated in the context of a major shift in the ownership pattern of American companies in the last 20 years," says



ECKHARD PFEIFFER,
PRESIDENT AND CEO,
COMPAQ COMPUTER
CORPORATION:

"SINCE SPEED WAS CRUCIAL TO OUR RENEWAL, WE DIRECTED THE WHOLE ORGANIZATION TO DEVELOP INNOVATIVE PRODUCTS AND TO DISCOVER NEW MARKET OPPORTUNITIES — AND TO DO IT FAST."



SYLVESTER SCHIEBER, PH.D.,
DIRECTOR OF RESEARCH AND
INFORMATION,
THE WYATT COMPANY:

"WE CAN'T CONTINUE SHIFTING RESOURCES TO HEALTH CARE AT THE CURRENT AND PROJECTED RATES AND EXPECT AMERICAN BUSINESS TO GROW."

Martin Lipton of Wachtell, Lipton, Rosen & Katz. "Today more than ever, the shares of large U.S. companies are held by institutional investors. From time to time, these investors become disgruntled with companies that underperform because of poor management or the inflexible pursuit of a weak strategy. As owners, they demand accountability."

Good corporate governance, says Lipton, is a "safety valve" that can improve performance and defuse strained relations between companies and institutional investors. Urging CEOs to "get out in front and lead in this area," Lipton recommends that they ask their independent directors to do an annual performance review of top management, the company, and even the board of directors.

Dale Hanson, CEO of California Public Employees' Retirement Systems and manager of its \$70 billion fund, reports that relations between institutional investors and corporate boards have improved significantly in recent years. "The good news is that they are more willing to meet together and have an open dialogue about real issues. In addition, the most militant investors have stepped down from their soapboxes and distanced themselves from such issues as confidential voting and poison pills. Today the spotlight is aimed precisely at performance."

According to **Joseph L. Dionne**, chairman and CEO of McGraw-Hill, Inc., the burst of publicity about corporate boardrooms is no cause for panic. "On the contrary, the current wave of attention to corporate governance is a positive force that will serve the best interests of all stakeholders — and U.S. enterprise as well," says Dionne.

Corporate governance is just one of the many tough questions CEOs are weighing today. What business leaders decide about this issue, and others of equal import on the U.S. agenda, will profoundly affect the future of their companies — and the state of the nation — as America prepares to enter the 21st century.

*Written by Barbara H. Peter and Jane
New York-based business writers*

POLICY-MAKERS ON THE AMERICAN FUTURE

Many of America's most respected public leaders addressed The 1992 *Business Week* Symposium of CEOs. Here is what they said about key issues challenging U.S. decision-makers:

FOREIGN POLICY

DICK CHENEY, U.S. SECRETARY OF DEFENSE: "NOW THAT THE COLD WAR IS OVER, A MYTH IS SPREADING THAT NATIONAL SECURITY AND FOREIGN OBLIGATIONS DON'T MATTER. BUT THE CHALLENGES FACING THE MAKERS OF FOREIGN POLICY IN THE COMING YEARS ARE APT TO BE EVEN MORE DIFFICULT THAN THOSE WE HAVE RECENTLY TACKLED. AS YOU DELIBERATE THE FUTURE, REMEMBER THAT THE WORLD WILL EXPECT THE U.S. TO PLAY ITS HISTORIC ROLE AS PROMOTER OF PEACE, DEMOCRACY, AND SECURITY."

EDUCATION

DAVID T. KEARNS, U.S. DEPUTY SECRETARY OF EDUCATION: "I LEFT CORPORATE AMERICA TO WORK AT THE DEPARTMENT OF EDUCATION BECAUSE I WAS WORRIED WHETHER AMERICA COULD LEAD THE WORLD IN THE 21ST CENTURY. TO PUT IT BLUNTLY, WILL OUR CHILDREN HAVE THE SKILLS THEY NEED TO LEAD? WILL THEY HAVE THE ABILITY TO COMPETE? I AM CONCERNED BECAUSE OUR NEXT GENERATION DOESN'T YET HAVE THE BEST SCHOOLS IN THE WORLD. AND EDUCATION IS THE OVERARCHING SOLUTION TO A WHOLE SET OF PROBLEMS WE FACE."

GLOBAL TRADE

MARIO M. CUOMO, GOVERNOR OF NEW YORK: "TODAY, NEW YORK EXPORTS MORE TO JAPAN THAN ANY OTHER STATE. OUR ECONOMIC DEVELOPMENT DEPARTMENT HELPS BY ACTING AS A BROKER — IT EVEN BUYS SHARES OF SMALL BUSINESSES. STILL, 50 COMPANIES ACCOUNT FOR 80% OF THE EXPORTS. HUNDREDS AND HUNDREDS OF FIRMS DON'T EVEN COMPETE. SO, GOVERNMENTS AT EVERY LEVEL MUST WORK HARDER TO HELP AMERICAN COMPANIES FIND FOREIGN MARKETS FOR THEIR PRODUCTS."

HEALTH CARE

HARRIS WOFFORD, U.S. SENATOR, PENNSYLVANIA: "A STAMPEDING HERD OF FORCES IS DRIVING UP HEALTH CARE COSTS. ALL WE CAN DO NOW IS TO LASSO THEM — COMPANY-BY-COMPANY, PROGRAM-BY-PROGRAM. BUT UNLESS WE BUILD A STURDY FENCE TO CORRAL THE WHOLE STAMPEDE, WE WON'T CONTROL THE SYSTEM. A MIXED DELIVERY SYSTEM MAKES SENSE TO ME, ONE STRUCTURED BY THE STATES AND LOCALITIES AND BUILT ON THE STRENGTHS OF OUR DIVERSITY."

AMERICAN DIVERSITY

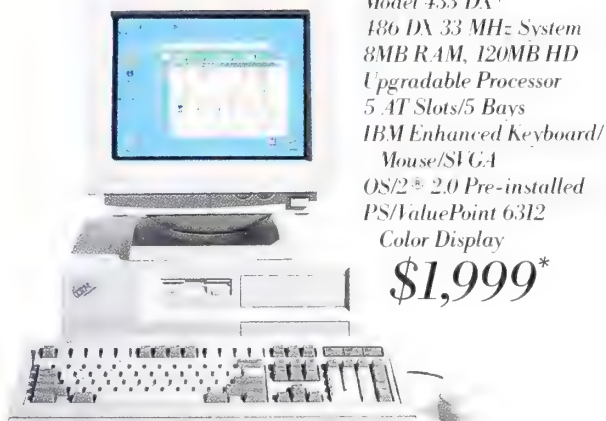
BILL BRADLEY, U.S. SENATOR, NEW JERSEY: "WE HAVE A RESPONSIBILITY TO LEVERAGE DIVERSITY IN AMERICA. CORPORATIONS IN PARTICULAR MUST USE THEIR MORAL POWER TO DEVELOP THE TALENTS OF THEIR DIVERSE WORK FORCE — AND MOVE THAT TALENT UP THE ORGANIZATION. THE U.S., IN TURN, MUST BE AN EXAMPLE TO THE WORLD OF A PLURALISTIC DEMOCRACY WHOSE GROWING ECONOMY TAKES EVERYONE TO THE HIGHER GROUND."



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Upgradable Processor, 5 AT Slots/5 Bays
IBM Enhanced Keyboard/
Mouse/ VGA
OS/2 2.0 Pre-installed
PS/ValuePoint 6312
Color Display
\$1,629*

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ctically everything,
lly nothing.

THE FUSE IS SIZZLING IN HONG KONG

Beijing's furor over Britain's call for more democracy could jeopardize China's booming trade

Hong Kong Governor Chris Patten describes himself as a "non-confrontational man." But he sure is in the center of controversy. The 48-year-old Briton has set off a political storm in the past month that is reverberating around the globe. Without consulting Beijing, Patten boldly announced a new blueprint for government that would modestly increase the level of democracy in Hong Kong. Offended by his tactics, Beijing elders gave dark warnings that they would repudiate the entire handover treaty. Their vociferous response rocked Hong Kong's stock market off its all-time high (chart).

On one level, Patten's blast can be seen as Britain's last attempt to impose Western-style institutions on this tiny slice of China. But the squabble is broad-

ening into a deeper crisis, touching off fears abroad, including the U.S., that Beijing could go too far. If China strikes back too hard, Hong Kong land prices could tumble and new investment could flow elsewhere. And a strong Chinese reaction is certain to sour neighboring Taiwan on reunification with the mainland anytime soon.

Suddenly, the balancing act by China's leaders between economic reform and political cohesion is more precarious than ever. Fearing that growing calls for democracy in Hong Kong could spread to Guangdong and other southern provinces, China's leaders are digging

in their heels. That in turn could cause political disruptions just as Beijing is engaged in massive economic reforms.

Why Britain's sudden passion for democracy in Hong Kong after 150 years at the helm? The British argue that while full-fledged democracy doesn't exist in Hong Kong, there is a rule of law

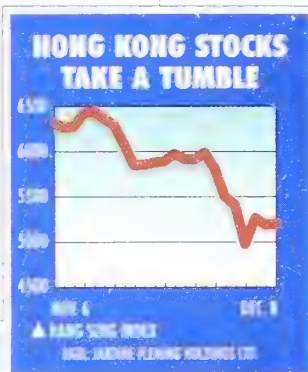
that provides protection of fundamental human and civil rights. What's more, Hong Kong's institutions "give business a decent environment in which to operate," says Patten. So British Prime Minister John Major and Patten decided to lock in as many protections as possible before the colony changes hands.

GROUNDING? Patten's game plan may win

praise back home, but it's backfiring among the business elite in Hong Kong and China. They worry that the Chinese could make good on threats to force any contracts signed by Hong Kong that extend past 1997, including those for a new \$22 billion airport.

Now, the flap is hitting Washington, just as the new Administration prepares its China policy. At issue is not only how hard to push for political and human-rights reforms but also coveted most-favored-nation (MFN) trade status. Hong Kong is clearly on President-elect Bill Clinton's agenda. On Dec. 8, he declared that the U.S. "should do what it can... to ensure that human rights and personal freedoms will be observed, moving towards 1997 and beyond."

Beijing is already cooking up ways to woo Clinton. For starters, more releases of imprisoned Tiananmen dissidents could be in the offing. And



THREATS: BEIJING SAYS IT MAY NOT HONOR CONTRACTS FOR HONG KONG'S AIRPORT PROJECT

HOW MANY LAWYERS CAN YOU FIT ON A FLOPPY DISK?

Computers won't replace attorneys—but they're making a dent

When Metropolitan Life Insurance Co. gets ready to close big commercial real estate financing, it doesn't automatically call in top legal guns. Often, the financial-services company has its paralegals call a software program called CLINT, which asks questions about the property, type of borrower, and so on. In 15 minutes—*voilà*—the computer spits out a checklist of the documents and research needed to complete the transaction.

It's almost every company's dream: getting rid of the lawyers. Although replacing lawyers with robots is still a fantasy, leading-edge companies increasingly are turning to software for legal expertise. The programs help assemble contracts and close deals. In some cases, "expert systems" let lay people do the work of senior partners.

In recent years, "smart" programs that incorporate human expertise or knowledge have been catching on in diverse areas—finance, energy, and marketing, to name a few (BW—Mar. 2). Law has been lagging. But in a scramble to control spiraling legal bills, more general counsels are embracing the software and other technology, such as electronic mail, to boost productivity and cut costs. Yet for those very reasons, outside law firms that bill by the hour view this technology as a threat," says lawyer Henry Koltys, chairman of the American Bar Association's expert-systems group.

But Motorola Inc., for example, views legal-services software as a competitive edge. As part of a companywide quality program, Motorola last year created a data base for drafting speedi-

er contracts. Before, in-house lawyers would rifle through files searching for contracts from similar prior transactions. Then, they would cut and paste the old forms to create a new document.

Now, with the push of a computer button, the lawyers can retrieve clauses from Motorola's 100 "best" contracts that are on-line, says Edward W. Jacobs, sen-

ior division counsel, who helped devise the system. That's just the first step, he says, toward a more ambitious program of "pushing down" legal knowledge to sales and administrative workers, who'll be able to design contracts on their own.

At Sears, Roebuck & Co., the search for efficiencies has progressed even further. A legal program, known as Matter

Manager, can track lawsuits and then use the data to draft summonses and form letters. It can even provide information for answering pretrial "discovery" requests. Besides saving time on drafting, the program lets administrative assistants do paperwork once handled by attorneys, says Matthew Petrich, legal-systems analyst at Sears.

BETTER SERVICE. Cost-conscious general counsels such as Chrysler Corp.'s Leroy C. Richie also are pushing law firms to exploit technology. As a result, small and medium-size law firms that use software can win market share. In the mid-1980s, attorney Charles E. Pear Jr. developed a program that could draft documents for conveying real estate. In a year, his small Hawaii law firm saw such business jump from about \$10,000 annually to about \$250,000, and it continued to rise. While the firm didn't undercut rivals on price, it did work faster and with fewer errors, says Pear, now a visiting professor at the University of British Columbia's law school. By the time a competitor recruited Pear to design a similar system, its real estate work for a common corporate client had evaporated, he says.

Forward-thinking large firms are turning to advanced software to provide better service to demanding clients. Washington's Wilmer, Cutler & Pickering is using software technology known as hypertext. Similar to an electronic book, it lets users browse instantaneously through relevant information about a law or legal issue—and answer client inquiries more rapidly and thoroughly.

Despite exceptions, most law firms remain convinced that what they do is unique and cannot be programmed into a computer. Often, that's true—no software in the world could defend against a hostile takeover. Still, it's amazing what some programs can do.

And in the face of increasing competition, law firms may have little choice but to turn to computer technology for help. "If they have the capacity, I want to use them," says Richie. "If not, I wish them luck."

By Michele Gaden in New York



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LAWYERS-IN-A-BOX

BLUE SKY ADVANTAGE

CCH Legal Information Services, New York
Researches state securities laws and drafts initial-public-offering documents

SCRIVENER

Dianoetic Development Co., Philadelphia
Helps assemble wills, contracts, and litigation documents by applying legal rules

WIN

West Publishing Co. Eagan, Minn.
Makes on-line legal research easy by translating plain language into legal terms

DATA BW

He Started A Revolution By Selling



Ted Wain, founder and president of Gateway 2000, runs his high-tech business the old-fashioned way, with the midwestern friendliness you find in places like this cafe in Spink, South Dakota - population 14 - located just a few miles from Gateway's factory.

Computers The Old-Fashioned Way.

So you want to start a revolution in a \$50 billion industry? Start a direct-market personal computer company in the Midwest. Manufacture high-quality, high-performance computers with the latest technology. Keep your overhead low so you can sell your products at the best prices on the market. Give your customers friendly, personal service. And never get greedy. Always offer the best value.

This was Ted Waitt's business strategy when, seven years ago, he started a company called Gateway 2000. You'd hardly call it a radical plan, and yet the effects have been quite revolutionary. Gateway has grown, almost unnoticed, to exceed \$1 billion in annual revenue. The latest International Data Corp. research shows Gateway 2000 with a 3.6% share of the U.S. PC market, compared to Compaq with 3.5% and Dell with 2.1%. And Gateway has managed to do this while making better profits than any other company in the DOS-based PC market.

What you see other computer makers doing today – struggling in vain to get their overhead down, cutting corners on quality, features and performance to get their prices down – is a reaction to Gateway's phenomenal success. They know they have to change the way they do business to compete with the value Gateway 2000 offers.

Why is Gateway causing such a stir? Maybe it's because old-fashioned value is never out-of-style. You still like to get a good buy on quality products. You still like great service. You still want to buy from a company you can trust, a company that will be there for you. That's what you get from Gateway 2000.

When you're shopping for a computer, remember where the value revolution started and give us a call. We sell a complete line of PCs and computer products including printers, software, multimedia components and peripherals. Whether you're a Fortune 500 company, a small business or an individual, we'll give you the kind of value you thought was a thing of the past.

As an example of the value we offer the Gateway 2000 Nomad

425DXL gives you the power of a 486 desktop computer in a 5.6-pound, 8.5 x 11-inch portable.

Features include a backlit 10-inch VGA screen, 79-key keyboard,

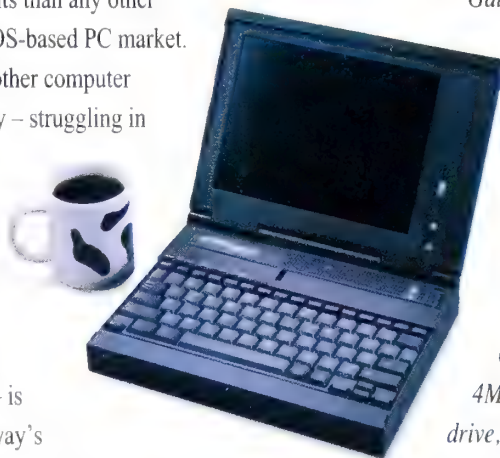
6-hour NiCad battery,

4MB RAM, 120MB hard

drive, 3.5-inch diskette drive,

Windows, MS-DOS, Microsoft

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CLOUT!

MORE AND MORE, RETAIL GIANTS RULE THE MARKETPLACE

The folks at Totes Inc. thought up a pretty nifty product. They took a heavy pair of socks, stuck rubbery treads on them to provide traction on slippery floors, and called the result slipper socks. High fashion, no. Big business, yes: A year after introducing them in 1988, Totes was selling 14 million pairs a year. Kmart Corp. and Wal-Mart Stores Inc. alone accounted for as many as 1.5 million pairs.

But not for long. Within two years, both giant discounters had found suppliers that made knockoff slipper socks for less. They dropped Totes—and lowered the price of their knockoffs 25% or more, to under \$3 a pair.

So Totes is in high dudgeon, right? It's hurling imprecations at Kmart and Wal-Mart and vowing never to deal with

them again, isn't it? Not exactly. For this \$200 million Cincinnati-based marketer, such reversals are the price of doing business with huge mass merchants. These days, Totes executives figure their new products have a year, at most, before these retailers crowd them out with lower-priced knockoffs. Says President Ronald Best: "You're constantly faced with a decision: Can I afford to deal with these guys?" The brutal truth: "You can't afford not to."

Best and thousands of other suppliers large and small are feeling the effects of a vast consolidation under way in retailing. In category after category, giant "power retailers" are using sophisticated inventory management, finely tuned selections, and, above all, competitive pricing to crowd out weaker players.

Consultants Management Horizons predicts that retailers now accounting for half of all sales will disappear by year 2000 through bankruptcy, merger or other reorganizations. Triumph over them are superpowers including Wal-Mart, Kmart, Toys 'R' Us, Home Depot, Circuit City Stores, Dillard's, department Stores, Target Stores, and Costco, among others.

CATEGORY KILLERS. Leading the pack, of course, is Wal-Mart. The key to its clout, says Chief Executive David Glass, "We're probably in a better position to determine specifically what the customer wants to buy than is the manufacturer." The nation's No. 1 retailer is expected to grow 25% this year, to some \$10 billion in sales. Retailers as a whole will be lucky to grow 4%.

HOME DEPOT
Black & Decker asked its
advice on the DeWalt
line while the power tools
were still in development



Consumers are flocking not only to Wal-Mart but to new retailing channels. They now patronize warehouse clubs and tightly focused "category killers," which are taking over sales of everything from toys to tires. Whirlpool Corp. estimates that such specialty stores, along with warehouse clubs, will more than double their current share of appliance sales, to over 25%, in five years.

It all adds up to a power shift in a privileged circle of merchants. More and more, they're telling even the mightiest of manufacturers what goods to make, in what colors and sizes, and how much to ship and when. They are forcing suppliers to rethink whom they sell to, how they price and promote their products, and how they structure their own organizations.

From the tiniest of private-label suppliers to giant Procter & Gamble Co., manufacturers are overhauling themselves to cope with the demands of retailing's kingmakers. "They're not difficult to deal with," says Lawrence Zalusky, chairman of Health o meter Prod-

ucts Inc., the leading maker of bathroom scales. "It's very simple. They say, 'We want this. Either you do it, or we'll get it from somebody else.'"

At its most basic, of course, the tussle between power retailers and their suppliers is about money. Many manufacturers are drawn to the big retailers in the hopes that huge volumes will offset slender profit margins. "Most suppliers would just do absolutely anything to sell Wal-Mart," says one

manufacturers' representative. For their part, the retail giants demand the best price. "They take your guts out," says one small toymaker of Wal-Mart.

BIG SQUEEZE. But that's only the beginning. Some vendors complain—usually off the record—of an unceasing barrage of demands from retailers, who want everything from discounts for new-store openings to payment of fines for shipment errors, to huge numbers of free samples. Vendors to Wal-Mart tell of how nagging some of these practices

can be. The Bentonville (Ark.) giant is known for phoning its vendors collect. And forget about buttering up your Wal-Mart buyer over an expense-account lunch. Wal-Mart buyers don't let



TARGET
Totes is producing
Chromatics, a brand
for sale only in
mass outlets



WHIRLPOOL Its delivery system lets retailers reduce inventory while keeping enough models on hand

vendors buy them lunch. Wal-Mart's Glass says the chain's vendors see the giant as "tough—but fair."

Painful as this may be for suppliers, the super-retailers, with their unrelenting focus on efficiency, bring plenty of benefits for U.S. consumers and the economy as a whole. They are continually squeezing excess costs out of the system for distributing consumer goods. Wal-Mart holds its operating and selling expenses to 15% of sales, vs. 28% for Sears, Roebuck & Co. Much of those savings are passed on to consumers in the form of better service or lower prices. The super-efficient warehouse clubs, including those owned by Wal-Mart and Kmart, are a case in point. A

recent McKinsey & Co. study found that the clubs offer prices 26% below regular prices at traditional supermarkets.

And the pressure from power retailers is, in turn, forcing manufacturers to become leaner and more nimble. For example, some big retailers demand that Totes put price stickers on individual packages so their stores don't have to do it themselves. And one warned the company it would impose a fine of \$30,000 for errors in bar-coding on products Totes shipped. Driven in part by such demands, Totes has automated its bar-coding system and revamped its computer and warehousing systems. Says Best: "You really have to have your act together to deal with these guys."

And there's the rub. The growth of big retailers tends to favor suppliers at the expense of the little guys. It's usually only the largest manufacturers that have the capacity to produce, on time, the huge quantities required by Wal-Mart and its ilk. It takes hefty resources and plenty of sophistication to meet their demands for customized products and packages, computer linkups, or special delivery schedules. And only a supplier with multiple product lines—a Unilever or a P&G—can offer big retailers an efficient way to handle many different products.

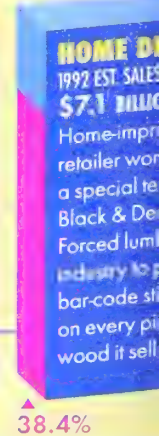
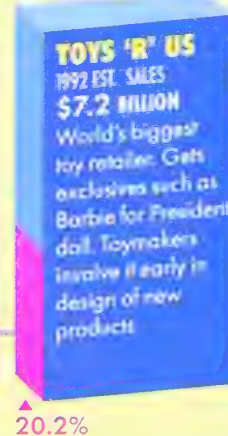
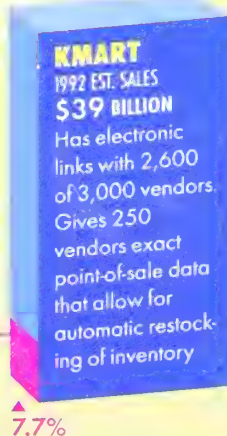
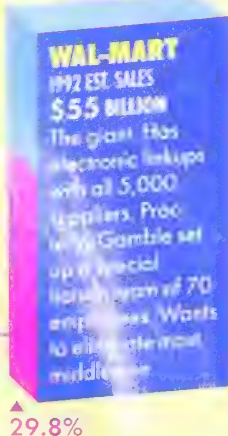
In addition, it's typically the big suppliers that can form the sort of close partnerships that retailing's behemoths

RETAILING'S POWERHOUSES THEIR TOUGH TACTICS ARE DELIVERING GROWTH

MAJOR POWER RETAILERS AND HOW THEY OPERATE

COMPOUND GROWTH IN ANNUAL SALES, 1986-91

TOTAL RETAILING 5.25%



increasingly demanding. The goal is to boost sales and reduce costs for both by slashing inventories, shortening delivery times, and eliminating error: "There's a healthy interdependence between us and people like Wal-Mart. We need them; they need us," says Wolfgang R. Immitt, CEO of Rubbermaid Inc.

Many such partnerships are apt to be mere rhetoric than reality, but some sophisticated suppliers have figured out how to forge ties to retailers that go well beyond the traditional contacts between buyer and salesperson. Black & Decker Corp., for example, has divisions with a dozen or so staffers from a variety of functions, from logistics to finance, dedicated to serving such customers as Home Depot. And B&D has placed some 70 employees near Wal-Mart's Arkansas headquarters.

RE FEAR. Smaller suppliers can sometimes use their nimbleness to match big partnerships. But for others, the choice may be to merge. Take Robert Stein, CEO of housewares maker Ekco Group. He's been making acquisitions, such as his recent purchase of plastic products maker Frem Corp., "almost as much out of fear as anything else." Says Stein: "You've got to be a broad-based supplier to provide those services."

In some businesses, the emergence of category-killer merchants is forcing consolidation among manufacturers that mirrors the concentration among retailers. Take the toy industry, where Toys 'R' Us Inc. controls some 20% of the retail market. The manufacturing side of the industry is dominated by just six companies, while a decade ago, no one toy-maker controlled more than 5% of the market. "It's becoming harder for small suppliers," says Toys 'R' Us Vice-Chair-

man Michael Goldstein. "They're up against giants that do things very well."

This isn't the first time that big retailers have flexed their muscles with manufacturers. In its heyday, Sears, Roebuck & Co. even owned several of its biggest suppliers outright or in part. The crucial difference today is that the best retailers are harnessing powerful information systems to stock what customers want, when they want it.

And they expect suppliers to act quickly on that knowledge. At Wal-Mart, for instance, more than half of its 5,000 vendors get point-of-sale data. At Kmart, 2,600 of 3,000 suppliers have some sort of electronic linkup, according to Jim Glime, manager of business development. "The power retailers have figured out a way of converting raw data into insight," says Gary M. Stibel, a principal of New England Consulting Group. Jeans and lingerie maker VF Corp., for example, worked with Wal-Mart's buyers to create model assortments of its wares for each store.

VF's new artificial intelligence system can automatically adjust the models. So if a particular outlet sells more large sizes than the norm, VF changes the assortment accordingly.

The most agile suppliers tailor their products and packaging to please individual power retailers. Rubbermaid Inc., for one, works carefully to adjust its product assortments and promotions. Wal-Mart, for example, likes to offer "everyday low prices" and avoid price promotions. But sometimes Rubbermaid wants to attract Wal-Mart shoppers with something extra. No problem: It just packages free Kool-Aid or Tang with its plastic pitchers.

In fact, Wal-Mart's distaste for price promotions is having a growing impact throughout the marketplace. Procter & Gamble, for one, is slashing the special low-price deals it offers to supermarkets for use in temporary promotions. P&G has also reduced the coupons it issues by a third. Such coupons and discounts often don't pay off, says one P&G source, and "the Wal-Marts are saying: 'We don't want that.'" Nor do power retailers want all the items packaged-goods marketers pump out. Unilever's Thomas J. Lipton unit discontinued 19 soups between 1988 and 1991, adding just one.

Increasingly, manufacturers are seeking input from retailers at the earliest stages of product development. Black & Decker got help from several giant home-improvement chains, including 205-store Home Depot and 305-store Lowe's Companies Inc., almost nine months before it introduced its new DeWalt line of power tools last February. "We talked to them about the name," says Gary T. DiCamillo, president of Black & Decker's U.S. power tools group. "We talked to them about the color. We talked to them about the warranty." Based on what it heard from the retailers, B&D launched the line with a 30-day no-questions-asked return policy. DeWalt, DiCamillo says, will do well over \$100 million in sales in its first 10 months.

FEWER SALESPeople. Power retailers are getting more professional with their advice. Target has its own 11-person "trend merchandising" group that travels the world in search of the next hit products, from neon-colored clothing for teenagers to troll dolls. While most of that work is for its own private-label goods, the retailer also uses its research to shape name-brand products. Regal Ware Inc. of Kewaskum, Wis., for example, modified the hue of blue in one cookware set to match Target's palette.

Similarly, Dallas-based Haggar Corp.,

"The base of retailers is shrinking, and the base of manufacturers is shrinking"

STO
SALES
\$6 BILLION
warehouse club
brands special
large sizes
shipping
cedures to
optimize handling
expenses in its
speed-down
operations

16.9%

DILLARD'S
1992 EST. SALES
\$4.8 BILLION
Most advanced
department-store
chain in inventory-
tracking technol-
ogy. Develops
'hybrid labels'
with such suppliers
as Haggar

22.5%

CIRCUIT CITY
1992 EST. SALES
\$3.2 BILLION
Consumer
electronics chain
is Sony's largest
customer. Infor-
mation systems
track sales up
to the minute

...AND THEY HAVE BIG CLOUT WITH SUPPLIERS

SHARE OF SELECTED SUPPLIERS' 1991 SALES GENERATED BY KEY RETAIL ACCOUNTS

GIBSON GRIFFINGS 25% from five customers, 13% from Wal-Mart	MR. KOFFER 27% from Wal-Mart, 10% from Kmart
GITANO 36% from 12 retailers, 26% from Wal-Mart	PROCTER & GAMBLE 71% of U.S. sales from Wal-Mart
WAGLE 22.6% from 12 retailers, 10% from Wal-Mart	REUBENHAIN 11.7% from Wal-Mart
NASANO 75% from 10 customers, 17% from Toys 'R' Us	ROYAL APPLIANCE 52.6% from five retailers, 26.5% from Wal-Mart, 16% from Kmart
PUTTY 23% from Kmart and Toys 'R' Us	THE SCOTCH CO. 26% from Wal-Mart, Kmart and Home Depot
MATTEL 13% from Toys 'R' Us	

1992 EST. SALES: \$1.1 BILLION (GIBSON GRIFFINGS), \$1.1 BILLION (GIBSON GRIFFINGS), \$1.1 BILLION (GIBSON GRIFFINGS)

Instead of moving million people have sim



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a \$381 million apparel maker, listens closely to buyers at Dillard Department Stores. Dillard helps choose the fabric and designs for the "Brickerton by Haggar" label, a line of men's slacks made by Haggar but sold only by Dillard.

To better serve their retailer customers, other consumer-goods giants are re-vamping not just their product lines but their very organizational structures. Consider Borden Inc., which found itself with a hodgepodge of snack-food brands and overlapping sales forces after a series of acquisitions. "We had 28 different people dealing with Wal-Mart," says Chairman Anthony S. D'Amato. "It was astounding to me." The fragmentation meant that Borden had little muscle in the marketplace. Now, besides eliminating or combining some brands and items, Borden will meld its eight sales organizations, six distribution operations, and five information systems into one to deal with big customers.

But size alone won't secure a supplier's position: Manufacturers must also nurture their brand names, because the more a product is a commodity, the more easily it can be replaced. "Your biggest insurance policy is having consumers coming into the store asking for your product," says Frank D. Bracken, Haggar's executive vice-president for marketing. Valvoline Inc., for example, is increasing ad spending on its motor oils by 40% this fiscal year, says Jan R. Horsfall, national brand manager. Others, from Frito-Lay to Goodyear, are hiking their budgets, too.

DELICATE BALANCE. Of course, it's usually the bigger manufacturers who have the budgets to keep brands strong. For smaller companies, the extra advertising is just one more burden. John A. Balch, CEO of Royal Appliance Manufacturing Co., the maker of Dirt Devil vacuums, is a firm believer in advertising. He looked golden when sales soared last year as Wal-Mart, Kmart, and others sold seeds of Royal's bright-red vacuums. Trying to keep sales growth going, Balch doubled Royal's ad spending in the first half of 1992. The ad boost contributed to an earnings drop of 79% in the second quarter, and Royal's stock plunged.

Many small suppliers can't count on

their brand names to provide clout. Instead, they emphasize quality and speed. Tiny lollipop maker Quick's Candy Inc., for example, is one of only 250 suppliers that automatically replenish inventories for Kmart (box).

The most successful retailer-supplier relationships involve compromise and a delicate balancing of interests. Many point to Gitano Group Inc. as a supplier that lost its balance. The trendy apparel maker watched its revenues soar from \$30 million in 1980 to \$780 million in 1991. A good share of that growth came from Wal-Mart, which last year accounted for 26% of the company's sales.

In fact, Gitano sells too much to Wal-Mart, say former Gitano executives, retailers, and rival suppliers. As a result,

ings and inventory write-downs, and its stock, at 3, is far below its \$18-a-share price of a year ago. The relationship with Wal-Mart, says one former high-ranking executive, is "what killed the brand." Working with the chain, he says, was like "dancing with a gorilla, and suddenly you're married to it."

INDIE ANGST. Current Gitano executives deny that their brand is overexposed to Wal-Mart. And Wal-Mart's Glass does not accept blame for injuring the brand. "They're the ones that sold to everyone in America in an attempt to grow their sales." He does say Wal-Mart pushed Gitano to improve its 80%-plus score on on-time and defect-free deliveries. "That's way below the industry," Wal-Mart, Glass says, continues to work with

Gitano, whose executives maintain that their performance is as good as any major supplier's.

Even more vulnerable are those vendors without any brand cachet. Murnighan, of Becker Industries, a supplier of framed pictures, thought it had a dandy relationship with Kmart. When the retailer increased the number of outlets it supplied from 450 to 650 in October, 1990, Murnighan says, it hired new staff and invested in additional hardware.

Too bad: The following March, Kmart dropped Murnighan. Twinsburg (Ohio) company, a move MBI alleges came without warning and forced it into insolvency since Kmart accounted for 80% of its business. MBI now sues Kmart for breach of contract in federal court and seeking more than \$2 million in damages. Kmart denies that it wrongfully terminated MBI, contending that MBI lost an announced 1991

competition among vendors and that the contract with the supplier allowed it to terminate with 60 days' notice.

Such tales make the small fry shudder. Adding to their worries is Wal-Mart's edict a year ago that it would no longer deal with most independent buyers and manufacturers' representatives. Wal-Mart says that it needs direct communication with its vendors. Many smaller suppliers fear that other retailers will copy the move, making it even harder for those who can't afford the forces of their own to break in.

The rise of the power retailer does

HOW TO COPE WITH POWER RETAILERS

- **Protect your brand.** If customers ask for your product by name, big retailers are more likely to stock your goods. Beef up advertising
- **Customize your products and promotions.** One-size-fits-all merchandising doesn't work anymore. Developing separate brands for different retailers may help
- **Innovate constantly.** Me-too products won't make the grade as power retailers cut back on suppliers or make their own knockoffs
- **Reorganize around the customer.** Consider setting up teams, including employees from all disciplines, to serve your biggest customers
- **Invest in technology.** Big retailers demand electronic hookups so the right products hit the shelves at the right time
- **Cut the fat.** If you don't cut costs and pass on the savings, retailers will find someone who can
- **Support your traditional retailers.** Help them survive the onslaught of the super retailers, and they could well help you survive, too

other retailers have started to shy away from Gitano as an overexposed and underpriced brand. "It used to be that the customer responded to Gitano," says Maxine Clark, an apparel expert who is now president of Payless ShoeSource. "But in the last few years, that hasn't happened."

In addition, former Gitano executives say, Wal-Mart set high standards for on-time delivery of defect-free merchandise—standards the apparel-maker failed to meet, despite mighty efforts. This year, the company has recorded over \$90 million in losses from painful restructur-

in that manufacturers have abandoned less-than-powerful retailers. Indeed, cherishing smaller retailers may come a key strategy for a supplier trying to keep some clout for itself. In 1990, for example, General Electric Co. introduced RCA as a lower-priced appliance brand specifically for smaller retailers. Whirlpool, too, is trying to help the guy. Its new quick delivery system, similar to GE's, ships appliances fast to power-retailer accounts. But the system also helps small retailers reduce inventory costs by delivering on orders within 48 hours. Still, the consolidation among retailers and their suppliers seems to be inexorable.

ble. Says Jeffrey A. Reigle, president and CEO of Regal Ware: "The base of retailers in this country is shrinking, and the base of manufacturers is shrinking. We become more and more important to each other."

For a glimpse of what the future might hold, take a look at the toy industry, where just five retailers now control half the market. That concentration has already reduced the number and variety of toys brought to market, says Merrill Lynch & Co. analyst Harold L. Vogel: "The manufacturers are playing it safe. There are fewer new products but more efficient manufacturing of the products out there."

Fewer new toys doesn't sound like much cause for panic. But what if the growing clout of power retailers stifles too many small companies and forces too many large ones to dodge risks? The close ties between retailers and their surviving suppliers could ultimately end up raising consumer prices and reducing innovation. It's not time to sound the alarm yet. But there's clearly danger abroad in the new land of the giants—for retailers, suppliers, and consumers alike.

By Zachary Schiller in Cleveland and Wendy Zellner in Dallas, with Ron Stodghill II in New York, Mark Maremont in Boston, and bureau reports

THE MEEK WHO MAKE GOOD WITH THE MIGHTY

Last year, Quick's Candy Inc. shipped millions of its gourmet lollipops to U.S. troops during Operation Desert Storm. It was a tall order for the tiny Buchanan (Mich.) company, which had to deliver the huge quantity with military precision. But then, company founder Howard E. Quick knows all about that: He's been selling to Kmart Corp. for three years.

Retailing may be increasingly dominated by giant chains and mammoth manufacturers, but Quick's, with sales of about \$3.5 million, shows how small suppliers can survive. Smaller vendors can move quickly, and if they can execute a quality product, they'll still be a viable source," says Jim Glime, Kmart's manager for business development.

Quick's lollipops, retailing for 50¢ to 65¢ a piece and in flavors from piña colada to black currant, sold briskly in some Kmart store stores. Now, nine-

year-old Quick's supplies all 2,400 Kmart stores in the U.S. and Canada. It's investing \$2 million in new equipment that will triple candy output.

THE RIGHT WAY. Besides producing a tasty lollipop, the family-run confectioner also works hard to make Kmart's life easy. Quick's invested \$15,000 in computer systems that let it monitor inventories at Kmart's 12 distribution centers. When supplies run low, Quick's automatically replenishes inventories, with no prior approval from Kmart. It's one of only 250

Kmart vendors with that capability.

Private-label women's apparel maker Jik Ltd. hopes to gain an edge with technology, too. The Miami-based company has spent millions over the past five years to develop information and manufacturing systems to serve its big customers, including Target Stores and Mervyn's. With about \$50 million in sales, Jik now turns some orders

pare their vendor lists by 10% a year for the next several years, says Philip H. Kowalczyk, management consultant at Kurt Salmon Associates.

That makes some more determined than ever to play with the big boys. For almost three years, Brik Toy Co. of Houston sold its outsized building blocks to such upscale specialty stores as F.A.O. Schwarz. But recently, it

landed business with Wal-Mart, Target, and Toys 'R' Us. Now, President John C. Brannan expects revenues of \$4 million in 1992, up 400% from last year.

What Brik lacks in size, it aims to make up in flexibility. To meet the lower retail price Wal-Mart wanted on its product, it changed the packaging and cut the number of blocks in one set. The small company recently started its first national ad campaign to back its newfound growth.

Sometimes speed, quality, and flexibility aren't enough. Wal-

Mart cut Quick's from 700 to 100 stores when it found a cheaper lollipop, says Howard Quick. He's now fighting to regain the business. But to avoid overdependency on the big retailers, Quick's is also beefing up sales to other outlets, such as schools, groceries, and the military. Still, for Quick's and other small suppliers, the fastest way to grow is to tie their fates to the power retailers—and hang on for dear life.

By Wendy Zellner in Dallas, with Marti Benedetti in Buchanan, Mich.



QUICK'S CANDY The family business tends the stock for Kmart

around in 5 weeks, down from 10 weeks in 1989. "The big retailers are going to drive people to run their business the right way," says Larry Reiner, Jik's vice-president for marketing.

The trouble is, many small suppliers fear their niche with the big retailers is rapidly shrinking. For starters, few small companies can make the kind of investments in production capacity it takes to serve the giants. Worse, the power retailers are cutting back the number of their suppliers in the name of efficiency. Some retailers aim to



MONEY WITH STRINGS ATTACHED

Banks are being sued over tie-in loans, and the Fed is investigating

Livio M. Borghese and Michael P. Triguboff, principals at Borghese Triguboff Investment Corp., a small investment company, thought the deal was all set. They planned to acquire Curtis Industries Inc., a Midwest manufacturer, and had a preliminary agreement with a Bankers Trust New York Corp. unit for the financing. But instead of shaking hands, Borghese Triguboff and Bankers Trust wound up shaking fists at each other—in court.

The dispute, which began in 1990 and is still in litigation in New York Supreme Court, involves charges of illegal tying, whereby a bank refuses to provide a service, usually a loan, unless the customer agrees to buy an-

other service as well. Tying is receiving increasing attention from regulators, who feel it may be hurting small companies that are trying to recover from the recession but are finding credit scarce.

Borghese Triguboff claims it was told by officials of BT Commercial, the Bankers subsidiary, that unless the company agreed to hire another Bankers subsid-

iary as financial adviser, "BT Commercial would reconsider providing senior financing." With less than 20 days to go before Borghese Triguboff stood to forfeit a good-faith deposit it had put on the deal, it signed the engagement letter.

Two Bankers units later sued Borghese Triguboff to recover fees for services provided for the planned financing.

the deal. Borghese Triguboff filed counterclaims accusing

Bankers of pressuring it into

buying other services if it wanted the financing. Bankers Trust said

the charge "is groundless and

has been brought in as a cynical

attempt to avoid the payment of fees that

are due and payable."

Tying is illegal under

Bank Holding Company Act and

Federal Reserve regulations. It has

become a hot issue in banking circles

because critics charge the scarcity of

credit gives banks leverage to use loans

as a means to promote various fee-based

services. The rationale behind the Bank

Holding Company Act ban on tying is

that banks shouldn't take unfair advantage

of their power as key sources of

credit. Some ties are allowed—banks

may give preferential rates to customers

who leave large balances on deposit—but most are barred.

AX TO GRIND. The Comptroller of the

Currency and the Federal Reserve are

currently checking into charges that

banks are tying services to loans for

municipal and corporate clients. The Fed

told Representative Henry B. Gonzalez

(D-Tex.) on Nov. 2 that it is looking into

three alleged incidents of tying. Securities

and Exchange Commissioner Richard

Y. Roberts has denounced the practice.

In a letter to the Fed last August,

Morgan Stanley & Co. described dozens

of alleged cases of actual or probable

tying. One bank allegedly told a large

service company its revolving-credit

agreement would be continued only if

the bank was hired to help underwrite

debt issues. Another, financing a re-

chain emerging from bankruptcy, allegedly

insisted it help manage the chain's

securities offerings. Ironically, Morgan

Stanley named few banks as violators,

perhaps because it, too, needs bank

services.

Of course, securities firms

such as Morgan Stanley

have an ax to grind about

tying. Concerned about

banks' inroads in the securities

business, they have

interest in proving that tying

gives an unfair edge to

banks offering services su-

TIES THAT ILLEGALLY BIND?

BANKERS TRUST NEW YORK CORP. Accused by investment company of demanding use of Bankers' advisory services in return for financing

HUNTINGTON BANCSHARES Sued, along with its units, by real estate developer, who alleges bank wouldn't provide letter of credit for note issue unless its affiliate was designated agent to place notes

NATIONAL CITY CORP. Document sent to client tied granting letter of credit to engagement of bank to market bond issue

DATA: MORGAN STANLEY & CO. INC., COURT DOCUMENTS

investment banking. In a letter to members last month, the Securities Industry Assn. said: "We need your help provide specific instances of abuses or realities to the federal regulators."

Many borrowers, worried about alienating a source of credit, keep quiet. One that has come to light involved Huntington Bancshares Inc. in Columbus, Ohio, and several subsidiaries, which were sued starting in 1990 by Human Services Plaza Partnership, a former client. In the spring of 1988, says a source close to the case, Human Services officials had approached Huntington for at least \$20 million to build a government office building in Cleveland. November, a Huntington subsidiary agreed—if it could serve as exclusive financial adviser and agent. Howard Franker, a general partner of Human Services, alleged in an affidavit that "it is made clear to me by Mr. Caruso [formerly a vice-president in Huntington's mortgage subsidiary] that if I wanted the financing for this project it HSPS must use the services of Huntington Company."

Human Services agreed. It needed to make ground on the building by the end of 1988 to meet its lease obligations. But on Dec. 30, Human Services charged, it got a letter from Huntington saying it would provide only an \$8 million letter of credit and that it would try to find other lenders to provide the remainder. Huntington Chief Counsel Ralph K. Casier says the bank denies any tying and declines further comment. But Huntington's Anthony Caruso testified his bank didn't want to issue a letter of credit for a note issue "that was going to be placed by any other company that replicates services that Huntington would provide."

UNDER PRESSURE. Another Cleveland case cited in the Morgan Stanley letter involves a bank subsidiary of National City Corp. In early 1992, National wrote to a potential client saying that a letter of credit would be "subject to National City Financial Corp. representation as to the merit of marketing of bond issue."

The client did not publicly complain about the letter. Thomas A. Plant, counsel for National City, says the letter in question was only a "discussion piece." He says the Fed is reviewing the matter, and National City, which prohibits illegal trading as a matter of corporate policy, is operating with that review.

Like the National City client, most borrowers quietly acquiesce to bank pressure. But with growing regulatory attention on the problem, banks that try to tie up customers are increasingly likely to find themselves tied up in court.

By Kelley Holland in New York, with Mike McNamee in Washington and Leah Schiller in Cleveland

REMEMBER THE '80s? REMEMBER PELTZ AND MAY?

The takeover 'bad boys' are eyeing—yes—another Posner outfit

Like many other 1980s dealmakers, Nelson Peltz and Peter W. May found fortune and grandeur only to suffer an inglorious aftermath. It has been no fun: a nasty fight with minority shareholders over a can company they sold and the real estate-related collapse of their London buyout venture. But unlike many of their '80s compatriots, their wealth, while somewhat diminished, remains huge—Peltz's an estimated \$600 million, May's some \$300 million.

These resources have given the duo an opportunity to recapture at least some of their former glory. Fittingly, they plan to do so by taking over a bedraggled outfit owned by another bloodied '80s figure, Miami financier Victor Posner (table). Pending a judge's expected approval in January, Peltz and May will assume control of Posner's ailing DWG Corp., a grab bag whose most prominent units are the Arby's Inc. restaurant chain and soft-drink maker Royal Crown Cola Co. Under pressure from U.S. District Court Judge Thomas D. Lambros in Cleveland and big debt problems, Posner is relinquishing his voting control. Three court-appointed directors say Posner violated a 1990 settlement of a suit by disgruntled

shareholders because he made DWG absorb expenses from other Posner entities. Posner refused a request for comment, although his attorneys have said that the charges are unfounded.

Peltz and May, both 50, believe that at DWG they will repeat their earlier successes at National Can Corp.—which, ironically, they also acquired by buying out Posner in 1985—and American Can Co. The can combine, renamed Triangle Industries Inc., was the nation's largest. By pumping in management expertise and capital spending, they made Triangle profitable, too. "We have the ingredients to do it again," insists the deep-voiced, perpetually tanned Peltz, who divides his time between his Palm Beach home and his Manhattan investment outfit, Trian Group LP.

QUICK BUCK. For Peltz and May, the chance to revitalize nationally known names, such as Arby's and RC Cola, is an intoxicating challenge. "We'll really focus on these core businesses," says May, the quieter and more operations-oriented of the two. Their ambitions are fueled by their new, young partner, Leon Kalvaria, 34, a mergers and acquisitions whiz who joined them from First Boston Corp. in early 1991. Currently, their



KALVARIA, PELTZ, AND MAY: "THEY'VE GOT PLANS AND A VISION" FOR DWG

Triam Group holdings consist of a handful of low-profile outfits, such as Equitable Bag Co., a shopping-bag maker.

The Peltz-May team is getting a big welcome from Wall Street. Since they emerged in early September as Posner's likely successors, DWG stock has almost doubled, to \$14.50 per share. Says Judge Lambros in an interview: "They're smart, they're credible, they've got plans and a vision."

Still, the team's return to the limelight with DWG could revive unpleasant memories of the strife-ridden, albeit profitable, conclusion of the Triangle can episode. They took heat from shareholders then for seeming to go back on apparent avowals not to act like typical raiders and resell Triangle for a quick buck—something Peltz promises not to repeat with DWG. Peltz contends that he was in Paris bargaining to buy the canning subsidiary of French container behemoth Pechiney in 1988, when Pechiney executives surprised him with an offer for Triangle that he couldn't refuse. "I had expected Triangle would be part of my estate," he says.

BARGAIN. Triangle stockholders then sued, because Peltz and May had boosted their stake in the company from 13% to 62% several months before, allowing them to maximize their Pechiney windfall at others' expense. The suit charged Peltz and May with insider dealing, saying they either knew or should have known that the Pechiney buyout was coming. The two dealmakers denied that, protesting that Triangle stock was a bargain they couldn't pass up following the 1987 market crash. But Peltz and May ended up settling the suit for \$75 million without admitting fault, splitting the cost with Pechiney.

Worse times awaited in London. In 1989, they took over Mountleigh Group PLC, a British property developer. The plan was to sell off the buildings and turn Mountleigh into a takeover vehicle for European companies. Then the Brit-

ish real estate market fell apart, and Mountleigh went into receivership with \$900 million in debt. Triam lost \$110 million on Mountleigh, and Peltz fled back home, admitting he had made a mistake.

Peltz and May likely feel a good dose of relief to be greeted as saviors at DWG. The applause could be premature. Fast food and soft drinks are cutthroat industries. Further, the Miami-based concern has gobs of debt—\$405 million in long-term borrowings—and pays a horrific amount of interest on it.

Part of that is because of Posner, 74, a pariah to many on Wall Street owing to his reputation for sucking companies dry through elaborate perks and other lavish spending. He has had trouble lining up conventional lending. With a 46% controlling stake in DWG at risk as the company hemorrhaged red ink, Posner turned to Cincinnati money man Carl H. Lindner's American Financial Corp. Lindner last year lent DWG \$103 million at a towering 19% rate. Lindner wouldn't comment to *BUSINESS WEEK* either.

DEAL O. K. The mess got to be too much for the court-appointed directors. At their behest, Judge Lambros sometime in January intends to O. K. a deal whereby Peltz and May's Triam will pay Posner \$72 million for half his stake. The rest will be converted to nonvoting preferred stock that Posner will continue to hold.

Peltz and May are brimming with remedies for DWG. They want to invigorate mar-

keting of RC Cola, a perennial also-ran in the soft-drink wars. And they plan to expand the 2,600-store Arby's chain and spiff up the seedier outlets. Most of all, they want to refinance the onerous Lindner debt, which they say is callable. Unlike Posner, they argue they can land lower-cost bank debt. "Our greatest pleasure is in building a business," says Peltz. So it's once more, with feeling.

By Larry Light in New York, with Gail DeGeorge in Miami and Richard A. Melcher in London

THE UPS AND DOWNS OF PELTZ AND MAY

1985-86 Roar into financial big leagues by taking over National Can and American Can. Form Triangle, the nation's largest container company

1988 Sell Triangle to Pechiney, France's packaging giant, for \$1.3 billion. But shareholders sue, claiming Peltz and May had earlier boosted equity stake, knowing French buyout was imminent. They deny this and later settle, paying \$75 million, half of it coming from Pechiney

1989 Buy London-based property developer, Mountleigh Group, with \$150 million from Triangle haul. Plan to sell off real estate and use as takeover vehicle

1991 Mountleigh goes into receivership after real estate market collapses

DECEMBER, 1992 Ready acquisition, planned for January, of debt-burdened DWG, parent of Royal Crown Cola and Arby's fast-food chain, from financier Victor Posner. Price: \$72 million in cash

DATA BW



NIGHTMARE ON WALL STREET

The NYSE may have the m

It's the regulatory equivalent of the 20-year locusts. Every decade or two the Securities & Exchange Commission embarks on a wide-ranging study of the stock market. The last, in 1970, helped spark the series of events that ended fixed brokerage commissions and transformed Wall Street. Well, the SEC is at it again—a yearlong examination of the markets grandiosely entitled "Market 2000." Wall Streeters aren't worried about the outcome. They're petrified. And none have more reason for concern than the denizens of an ornate building at Wall and Broad. The New York Stock Exchange, which is facing unprecedented challenges to its franchise, has the most to gain—and, more likely, to lose.

On the surface, the Market 2000 study appears to be nothing more than a bureaucratic paper chase. It was outlined last July in an 80-page announcement. That generated a foot-thick succession of comment letters and academic studies from some two dozen exchanges, trading systems, and institutional investors. But the SEC study is doing more than filling a file cabinet. It is laying the groundwork for major changes in the regulation of the markets, with up-ar-



**WALL STREETERS AREN'T
SCARED, THEY'RE PETRIFIED**

W RULE BOOK

from a new SEC study

ing trading systems getting as much attention as the Big Board.

he change in Administrations is unlikely to divert the SEC—and may even trigger action. “It’s a mistake to think that we’re just engaged in paper shuffling,” says William J. Fitzpatrick, general counsel of the Securities Industry Assn. and Richard Ketchum, former SEC chief

market regulation now executive vice-president of the National Association of Securities Dealers, which oversees the over-the-counter markets, notes that “every time the commission has entered in this kind of action, it has resulted in concrete action.”

What kind of action is the SEC offing this time? Market 2000 watchers suggest that the answer can be found in the SEC’s favorite habit—paper. In the midst of launching the new rule, the SEC’s Divi-

sion of Market Regulation made clear that its agenda is comparatively narrow. The regulators excluded such troublesome topics as penny stocks and equity derivatives. Instead, the focus will be on the nitty-gritty of the equity markets. Specifically:

■ **Trading systems.** Intermarket competition is the focus of the study. It’s a decidedly two-edged sword for the NYSE and its archenemies—Instinet, Posit, and the other trading systems that come to life when the Big Board is closed. The SEC study acknowledges the concerns of the exchanges that “they are at a significant competitive disadvantage” to the trading systems. It notes that the systems usually base their prices on trades in the primary markets—which the exchanges deride as “free-riding”—and don’t have anywhere near the regulatory burden imposed on the exchanges. The SEC also made pointed references to another sore point: the practice of some trading systems, and OTC market-makers, to pay for orders from brokerage firms, which induces them to route orders away from the NYSE.

The tenor of the SEC outline of the study indicates that the agency is likely to bring the trading systems under its regulatory umbrella. Payment for order flow is also likely to be curtailed or eliminated. However, the SEC might be tempted to weigh the emphatic views of one major institution—Investors Research Corp. of Kansas City, which runs the \$20 billion Twentieth Century Investors Inc. mutual-fund family. Investors Research strongly endorses the trading systems as providing “access to liquidity at very low costs,” and urges the SEC “to affirm the move” to such systems.

■ **NYSE Rule 390.** If the SEC decides to “give” to the NYSE with one hand—by regulating the proprietary trading systems—it may well “take” with the other hand by making life harder for the Big Board. The NYSE’s competitive Achilles’

heel is its Rule 390, which restricts the ability of its member firms to trade NYSE-listed securities in the OTC market. Critics contend that Rule 390 merely protects the franchise of NYSE specialists, while the NYSE favors keeping Rule 390 as a “pro-customer protection rule.” One unexpected nail in Rule 390’s coffin has come from Goldman, Sachs & Co. Co-chairman Robert E. Rubin, whose views loom large because he is leading the race to become Economic Security Adviser in the Clinton Administration. Rubin doesn’t endorse removing Rule 390—but he comes close. He notes that dropping 390 could provide “benefits that might result from the increased competition among markets” and remove much of the impetus behind after-hours and overseas trading of listed stocks.

■ **NYSE Rule 500.** This rule makes it difficult for an NYSE-listed company to voluntarily delist from the exchange. There’s hardly much demand for that right now. But it could become a hot issue as competitors to the NYSE proliferate, notes veteran market watcher Junius W. Peake, professor of finance at the University of Northern Colorado. “The technology is certainly there—this is, after all, just a communications business,” Peake maintains. It’s no surprise that NASDAQ has long advocated elimination of Rule 500. But the SEC seems to be moving in that direction also. In its outline of the study, the SEC expressed interest in knowing if “commentators believe there are any regulatory anachronisms, lingering inefficiencies, rules or requirements whose costs exceed their benefits, or anticompetitive” rules. It then specifically requested comments on Rules 390 and 500.

While the sparring goes on, the Street watches—so far, mostly without joining the fray. Except for Rubin at Goldman, Sachs, no major brokerage honcho has sallied forth with a comment letter. The SIA has also steered clear of this hot

potato. For its part, the NYSE says it is following the comments “carefully” and preparing a rebuttal. But in the final analysis, the huge volume of paper is outweighed by the SEC’s obvious view that the markets’ competitive barriers must come down just as assuredly as Wall Street’s wall was dismantled 300 years ago. For the NYSE, the only question is whether it will adapt—or be buried in the rubble.

By Gary Weiss in New York

HOW NEW SEC ACTIONS COULD AFFECT THE BIG BOARD

SOME COULD HELP:

► Non-NYSE trading systems face regulation

Unregulated trading systems that compete with the NYSE, such as Instinet and Posit, are under SEC scrutiny for trading off NYSE prices. New rules could curb their growth

► Payment for order flow is in jeopardy

Over-the-counter market makers and trading systems often pay brokerages for directing customer orders to them instead of the NYSE. The SEC could eliminate that practice

BUT OTHERS COULD HURT:

► NYSE specialists’ monopoly is in danger

The SEC is taking a hard look at NYSE Rule 390, which protects the specialists from competition with dealers in the over-the-counter market

► Companies may be free to leave the NYSE

NYSE Rule 500 makes it very tough for corporations to voluntarily delist from the NYSE. The SEC could repeal the rule, which critics say curbs competition between markets

DATA: BW

BY GENE G. MARCIAL

FIRST PACIFIC: IS IT WIRED FOR WINNING?

The company is still faceless on Wall Street, and its initial stock offering in mid-July bombed. So why is First Pacific Networks suddenly sparkling? In recent weeks, the telecommunications company has won special attention from Time Warner and MCI Communications, causing First Pacific's stock to leap to more than 11 a share from 5 in mid-November—finally exceeding the initial offering price of 9.

Time Warner's cable unit and MCI have agreed to test First Pacific's technology, called Personal Xchange (PX). Consisting of hardware and software that permit voice, data, or video signals to be routed on a single wire, the system can deliver two-way video and data services over a single optic-fiber cable, coaxial cable, or hybrid wire. PX allows delivery of phone services to customers over the existing cable-TV infrastructure, explains Dan Purjes, chairman and CEO of investment firm Josephthal Lyon & Ross.

'STAMP OF APPROVAL.' Some big investors believe the tests will be highly successful. "MCI doesn't go into any kind of testing project unless it has done its own testing beforehand," says Gordon Capital's Lap Lee, a veteran technology analyst. The test, says Lee, is a "great stamp of approval" for First Pacific's technology. Specifically, the test will provide alternative telephone access to MCI's network, using a part of Time Warner's cable system in Queens, N. Y.

Where regulations permit, PX will enable cable-TV operators to broaden their services by selling excess capacity to long-distance telephone carriers, says Josephthal analyst Jeff Sadler.

Gordon Capital's Lee sees a wide market for PX. In the U.S., the Baby Bells are potentially the big users. In the present system, phone calls are routed through large expensive switches run by mainframe computers. PX can route calls without the need for a main switch, says Lee.

Whispers are that First Pacific will land its first major PX contract by early next year with one of the Baby Bells. One big investor says separate talks are going on between the company and certain foreign telephone carriers. This pro figures that the contract could pro-

A RISING TIDE AT FIRST PACIFIC NETWORKS



duce revenues of \$75 million to \$80 million next year.

One contract could "result in a dramatic jump in earnings—into the \$1- to \$3-a-share range," says Lee. Based on his own scenario about potential contracts ahead, Lee estimates that First Pacific's stock could appreciate into the 18-to-20 range over the next two years.

BEWARE CHANTAL'S ENCHANTING PRICE

Not all low-priced stocks are necessarily cheap, of course. In fact, certain low-priced stocks deserve their cellar-level prices. That's how some pros regard Chantal Pharmaceutical, which traded at 14 earlier this year. It has since crashed to 4. So has it bottomed?

Not by a long shot, says Evan Sturza, editor of *Sturza's Medical Investment Letter*. He thinks the stock is headed for less than a dollar. Why? In the past 10 years, he asserts, the company's equity, working capital, and cash have dwindled to a point where Chantal now faces ouster from the NASDAQ market, where its stock is traded. While the company has raised some \$30 million over the past 10 years, notes Sturza, it now has shareholder equity of just \$600,000—way below the required \$1 million. In its Oct. 12 audit report, Ernst & Young says Chantal, as a development-stage company, continues to be primarily dependent on license fees or its ability to raise additional capital. "These conditions raise substantial doubt," it says, "about Chantal's ability to continue as a going concern."

"The situation has turned scary," Sturza warns. Chantal's 10-year effort to develop a product called Cyoctol for the treatment of both acne and hair loss has "languished" in tests for seven years, says Sturza. Initial test results have not been good, he notes.

The company says Sturza's comments are "false and materially misleading." With its limited finances, says CEO Chantal Burnison, the company has developed three patented compounds—Cyoctol, Ethocyn, and Metoclor. Test results have been praised by scientists, adds Burnison. Chantal is now trying to raise additional funds through a private placement to meet NASDAQ requirements, she says.

FROM USED CARS TO THE FINANCE LANE

Think you have any use for a used car dealership or its stock? Among those who probably will beg off are Merrill Lynch and Alexander Brown, two major securities firms that underwrote a 1990 stock offering for used-car company URCARCO at 19 a share. Well, the stock is now at 3 1/2, and the company is exiting from the second-hand auto business.

After suffering massive losses from its in-house financing of sales, the company changed its name to AmeriCredit and is now trying to become a consumer-finance company. What's alluring investors is that AmeriCredit has recently attracted big investors, such as money pro Richard Rainwater, as well as UBS Asset Management and Prudential. AmeriCredit has signed a contract with Rainwater Management Partners to help steer the company into consumer financing in exchange for an option on 3.2 million shares at \$3.22 a share.

"AmeriCredit is an opportunity to participate in a startup finance company at a price that's just a shade of the price of other finance companies," says David Jordan, a partner at Stamford Co., a New York securities firm. He thinks the stock will double in a year.

Analyst Frank Castle of Feeley Willcox Asset Management says AmeriCredit's book value is nearly \$5 a share and cash is \$4 a share. The company will continue liquidating its 3,300 car inventory, close its used-car lot, and increase its loan portfolio for indirect financing of autos. Castle sees AmeriCredit breaking even in the year ending June, 1993, vs. a loss in the past two years. And he expects earnings of 50¢ in 1994 and \$1 in 1995.



While you were trying to get into law school,
I was trying to get out of Afghanistan.

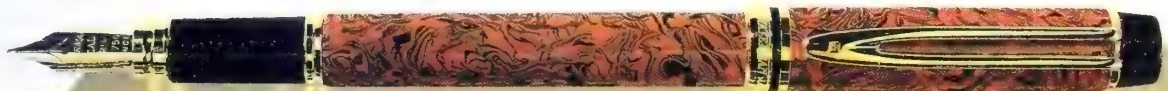
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AUTOS

OVERHAUL IN JAPAN

As global growth slows, its carmakers are rejiggering their vaunted system

Production manager Koichi Yohroh tilts his hard hat and strides down the gleaming flexible assembly line at Mazda Motor Corp.'s Hofu plant near Hiroshima, pointing out all the machinery that \$500 million can buy. Robotic arms insert an engine and suspension unit up into a Eunos 500 body that's moving along the line. The car, which is sold in Europe, spins 90 degrees, and robots attach the preassembled instrument panel. The line can juggle 12 different models, and it showcases a quiet, people-friendly workplace. Even the revolver-shaped electric screwdrivers are muffled, Yohroh notes, revving one up.

Lately, however, there's a note of melancholy in this flawless metallic ballet. Since opening the Hofu factory in February, Mazda has had to cut production to one shift from two. Worse, a lack of cash, plus simultaneous slumps in the world's major car markets, have forced the company to cancel its planned Amati

luxury sedan, which was to have been built on the line starting next year. Today, the plant is running at just one-third of capacity. "We expected markets to keep expanding," laments Mazda Executive Vice-President Makoto Miyaji. "We're not used to this."

MATURE MARKETS. Welcome to the real world, Japan. Since before the first Toyota Crown hit U.S. showrooms in the late 1950s, Japanese auto sales have followed one trajectory: up. But suddenly, in boardrooms and factories all over Japan, executives are grappling with how to eke out gains in a market that, for them, seems to have shifted into low gear. "There's no straight stretch anymore," frets Nobuhiko Kawamoto, president of Honda Motor Co. "We're facing matured, low-growth markets for the first time ever."

Here's the dilemma he and others see developing: A saturated home market plus political opposition will slow expan-

sion in the U.S. and Europe, while growth in smaller markets such as Asia and Eastern Europe won't be enough to pick up the slack. Meanwhile, says Nissan Chairman Yutaka Kume, Detroit is "narrowing the competitiveness gap" in the U.S., Japan's biggest foreign market. As a result, Japanese analysts foresee, their industry's revenue growth will drop to 2% or 3% annually in the next few years, from up to 10% in the late 1980s. Suddenly, once confident executives have doubts about how to respond. "Before, when I had money in my pocket, I knew exactly what to do—buy more equipment, keep on growing," says Kawamoto. But now, he says, he only knows one thing for sure: "We have to make ourselves very flexible to quickly respond to an uncertain future."

Japanese car executives see this as the biggest crisis they've ever faced. "We must drastically change our way of thinking," says Toshihiko Sekine, N



**EVEN AT TOYOTA'S
TAHARA PLANT, PEOPLE
CAN BEAT AUTOMATION**

's production-planning director. For years, they vow to overhaul their imitated "lean production" system, which uses low inventory, small-lot production, and rapid model replacement to produce cars that captivate customers. When growth stalled, some assumed advantages of lean assembly, such as its large variety of models and options, now seem too costly. The world auto slump also revealed a dirty little secret: even the vaunted Japanese can become imitated. "What the Japanese auto companies did in the late 1980s, when they were rich, was squander much of their resources," contends Furman Selz Inc. analyst Maryann N. Keller. With earnings flagging and No. 2 Nissan Motor Co. even sliding toward its first pretax loss in 45 years, the top priority of Japanese carmakers is to generate more profit at lower volumes. The companies are paring waste, shedding divisions, and even considering cutting models. They're standardizing everything from chassis and axles to steering columns, and they may keep some models on the market longer to trim development costs. Already the world's low-cost producers, they're ferreting out lots of additional savings. All the while, they're reorganizing managements, rejiggering assembly lines, moving production offshore, and raising prices overseas to offset the high yen.

At least for now, all this could give a boost to U.S. and European competitors. Future Japanese models are likely

to have fewer engine and drivetrain options. Honda, for one, says it may not offer a V-6 engine as an option vs. the standard four on its revamped Accord next year (page 86). Some models, such as a 1993 successor to Nissan's Sentra, may debut later than expected. And sticker prices on Japanese models may rise faster—they're already up an average 2.7% in the U.S. for 1993, twice Detroit's increase. Japan's market share could fall if these trends keep up. "We've got to keep worrying about Japan," says a top Big Three executive, "but there's a difference between being worried and being scared to death."

For the Big Three, there's also irony in Japan's new tack. Steps such as stretching out product cycles will move the Japanese closer to Detroit's way of doing things. And if the Japanese misstep, they could replicate some of Detroit's more egregious errors. Too much standardization, for example, helped hobble General Motors Corp. in the 1980s, when it turned out lookalike models that turned off consumers. Some analysts believe Mazda has contracted a similar malady in Japan, where six of its models are essentially the same car with relatively minor body variations.

GIDDY MODELS. Western rivals also worry, however, that Japan's carmakers could roar back by the mid-1990s. "They have always come out of [difficulties] a little better, a little stronger," notes Philip E. Benton Jr., Ford's president. "We're expecting that again." Nissan, for one, is looking for a 30% productivity gain over three years. The companies still export nearly half the 13 million vehicles they produce annually in Japan, but that's changing as production and research are shifted offshore to ease trade friction. Toyota is doubling capacity at its Georgetown (Ky.) plant, to 400,000 vehicles annually, and Honda and Toyota are adding production in Britain. Much of the streamlining at home can be applied to these plants.

At the moment, a major problem complicates all this: overinvestment in factories in Japan. Collectively, the companies poured \$34 billion into capital

spending, much of it in Japan, in the three years that ended in March, 1992 (chart). With social pressures building for an improved Japanese lifestyle and the government calling for shorter workweeks, the companies figured they had to boost automation to keep factories humming. For instance, the 18% reduction in work hours the government is demanding from 1990 to 1994 is equal to a 723,500-unit annual cut in production at Toyota. But with local car sales off 12% since the 1990 peak of 5.1 million units, it may take years to bring plants such as Hofu up to full capacity.

Billions more may have been wasted on giddy new models and features, main-

A TUNEUP, JAPANESE-STYLE

PROBLEM

SOLUTION

Too many model changes, features, and options

- ▶ Slash model and feature variations
- ▶ Keep some models on the market longer
- ▶ Restructure management to reduce duplication

Financially troubled suppliers may fail

- ▶ Encourage suppliers to produce for competitors
- ▶ Teach suppliers cost-cutting methods

Stronger yen, higher capital costs

- ▶ Raise prices in the U.S. and Europe

Political resistance overseas, saturated Japanese car market

- ▶ Build foreign factories and R&D centers
- ▶ More tie-ups and joint projects with U.S. and European companies

Long-term labor shortage plus demands in Japan for shorter working hours

- ▶ Use more older, foreign, and female workers
- ▶ Design cars with more common parts so they're easier to build

ly for the Japanese market. Often, there was too little regard for assessing market prospects or costs. One result is the proliferation of options on models such as Nissan's Laurel, sold only in Japan. Aficionados can choose from 87 different steering-wheel sizes, colors, and other variations. "We thought customers wanted more choices," laments Hideaki Miyahara, a Toyota product manager. But it turns out that 80% of sales come from 20% of the combinations.

The streamlining that has followed is Japanese-style. In the place of U.S. slash-and-burn plant closings and layoffs, the Japanese hope that thousands of small changes will add up to big sav-



SUPPLIERS

Car makers are pressing parts makers, such as Yuji Shimizu, to streamline their production lines and reduce costs

ings. The first major order of business is to reduce variations in product offerings, starting this year. Even No. 1 Toyota, which is weathering the downturn well, aims to cut color and option combinations by 20%. In Japan, for instance, its Camry Vista is now offered in only 64 combinations, down from 84 last year. Steering-wheel choices on next year's Nissan Laurel will drop from 87 to just 10. The changes are also hitting some models sold overseas. Starting this year, Mazda's RX-7 sports car has only one engine choice, not two.

Even greater gains are expected from wider use of common components, which cuts design time and expense. At Honda, 30% of the parts in the 1992 Civic came from the previous model, up from 10%

before. More parts are being shared among different models, too. Take Honda's new Domani, a souped-up Civic for the Japanese market. Its body is new, but 60% of its value comes from existing parts such as the chassis, gearbox, and instrument-panel innards.

SAVINGS SCALPEL. Using a technique called "value analysis," a way of eking out savings in models already being produced, Japanese companies are also taking penny-pinching to a new plane. Here are a few examples from Toyota chief engineer Kiyokazu Seo. Hook up tail lights with one connector instead of two: savings, 42¢. Make a smaller plastic clip to anchor the body's weatherstripping: a \$1.05 savings. Instead of coating the car's entire underside with a sealing

compound, seal only where needed: huge \$2 savings, despite the extra ro required. Toyota says such changes won't hurt quality; before, it says, it more than was necessary.

Japan's other mantra these days "value engineering"—taking a scalpel to waste at the design stage. It's an technique for eking out dozens of gains that Japanese companies are using with renewed vigor. Toyota, for example, has started injecting rubber into brake boosters, the hydraulic cylinder that a brake pedal actuates, rather than inserting two pieces of rubber. Result: Subassembly time is down by 1 minute. Toyota now even cuts sheet metal by stamping to the centimeter, rather than leaving a tiny margin for trimming later.

Production lines are also being simplified. Nissan, for example, says it has improved productivity a targeted 10% on 1993 models, mainly through seemingly mundane changes. Bolts on the engine mounts, gas tank, and radio that workers used to twist on from below are now tightened from above. Panels are marked to show where brake tubes and fuel hoses should be attached. A hook now holds a car's air blower, heater, and sun visor so a worker can attach them with only one hand.

In some cases, the lessons the Japanese are learning will sound familiar in Detroit. For instance, Tadaaki Jaga, Toyota's director of production control, says the company's new line at Kyushu, a southern island of Japan, won't use some of the highest-tech gear Toyota has experimented with. A \$1.6 million automatic power-train inserter won't be installed because it's too expensive

what it does. Also due to cost, it was dropped: two the four rob

STAGNANT SALES AT JAPAN'S CARMAKERS



...ARE CUTTING INTO PROFITS...



...AND CAPITAL SPENDING



affixing wheels, and driverless electronics-delivery carts that play tinny musical music to warn workers they're ringing.

Like GM, Toyota, it seems, has learned "too much automation can backfire," Jagawa says. "If it's too complicated, workers are intimidated." Moreover, he adds, even a flexible automated system often can't beat real people, who continually improve quality with suggestions. GM made a similar discovery after spending some \$80 billion on automation during the 1980s. One big difference: Toyota carefully proves out new technology before using it widely.

There are also similarities in the organizational changes being made in Japan. In Detroit, Take Toyota and GM. In October, when Tatsuro Toyoda took over Toyota's presidency, he divided the company into new departments based on vehicle type: front-wheel drive, rear-wheel drive, and four-wheel drive. Behind the shakeup, pride and the seniority-competing team leaders sometimes get the best ideas from prevailing. Ironically, GM just chose a similar structure for its domestic auto operation.

And Chrysler Corp. had best keep an eye on Honda. Chrysler reorganized its parent company in 1989 around Honda-style product development teams to speed up its development cycle. While the move is working so far for Chrysler, Honda is now reining in the once all-powerful project leaders who have typically shepherded its new models from conception to marketing. Kawamoto reorganized Honda and assigned Shinya Iwakura, a top executive, to coordinate among project leaders. Adding such a layer of management breaks all tenets of lean production, but Honda figured it was no choice. "Engineers had too much freedom," Iwakura says.

A special concern for the Japanese is maintaining the health of their financially-strapped suppliers. That's crucial because Japanese carmakers contract out 80% of their parts production to 200 to 300 first-tier suppliers in a loosely knit *keiretsu*, or family of interdependent companies, and they in turn buy parts from subcontractors. Yet these days, even loyal suppliers like Yuji Shimizu, the fifth-generation president of Shizu Industries, a family-owned company west of Tokyo, say they now resist the companies' demands for price cuts. Those who don't risk red ink or even bankruptcy.

The auto makers are taking pains to keep key suppliers viable. As GM does in the U.S. and Europe, Toyota and others dispatch teams of engineers to help streamline parts makers' production lines. They also encourage the highest of companies to branch out. Nissan insists each supplier to get 30% of its

sales outside its *keiretsu*—twice as much as before. Auto makers want as many ties as possible to suppliers with the best prices and technology.

At the lowest end of the supply chain—the thousands of tiny family-run machine shops that are the shock absorbers of Japan's economy—quality is starting to suffer. President Takeshi Tanuma of Japan Electronic Control Systems, a controller and sensor maker near Tokyo, is monitoring 7 of his 130 small suppliers because their quality is suspect—something he has never resorted to before. He even added a final inspector at one, violating the spirit of lean production and boosting costs 2%. "If it happened to every supplier, it would wipe out my profits," Tanuma grimaces.

In the longer term, Japanese auto

contrast with a typical plant's first-year turnover of 25%.

Where will all this change lead? No matter how much Japan's car companies slash costs, they're likely to hurt financially for a couple of more years. Even Toyota, with 42% of Japan's car market, has suffered a two-thirds decline in operating margins over two years—to 2.1% for the fiscal year ended last June. Rivals such as Nissan and No. 4 Mazda are genuinely squeezed. Nissan is expected to post a pretax loss of \$120 million for the year ending next March, on sales of \$32.4 billion—its first such shortfall since 1946. On average, figures Koji Endo, an analyst in Tokyo with S.G. Warburg Securities (Japan) Inc., auto companies' operating margins have fallen to a measly 0.9%, the lowest level in half a century.



WORKWEEK

This Mazda worker enjoys more family time, thanks to social pressure for shorter hours and a better lifestyle

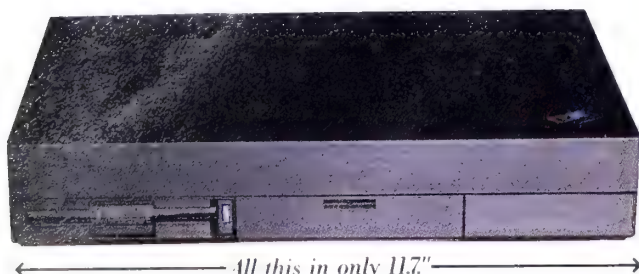
makers have another worry: Where are they going to find enough workers? The country's population is dropping, more young workers are shunning manual labor, and the government's drive to improve the quality of life is forcing a reduction in the hours that people work—all of which will worsen a chronic labor shortage.

GOOD BET. To keep current employees happy, the companies are not only paring hours but investing in amenities such as jazzier work uniforms and cleaner dormitories and better cafeteria food for employees and their families who live in company housing. On the newest production lines, individual dollies adjust a car's height at each workstation so an assembler doesn't have to bend over. There's evidence that such measures help reduce turnover. In its first year, no one quit Toyota's high-tech Tahara No. 4 line, 190 miles west of Tokyo, in

Given their past performance, however, it probably won't pay to bet against Japan's major auto makers for long. Research by a Harvard University team that surveyed 29 development projects for vehicles that hit the market between 1983 and 1987 found that Japanese companies develop a car in 1.7 million engineering hours over just 46 months—vs. 3 million engineering hours and 60 months for their Western counterparts. And the companies have gotten more efficient. For instance, when Chrysler took apart Honda's new Civic, which was revamped for the 1992 model year, it figured that the new model cost \$700 less to build than the previous one. That's a boon for Honda, considering that the Civic sells for an average of \$11,000, some \$1,000 or so more than the previous version did.

Chrysler and one or two European companies seem to be narrowing the gap

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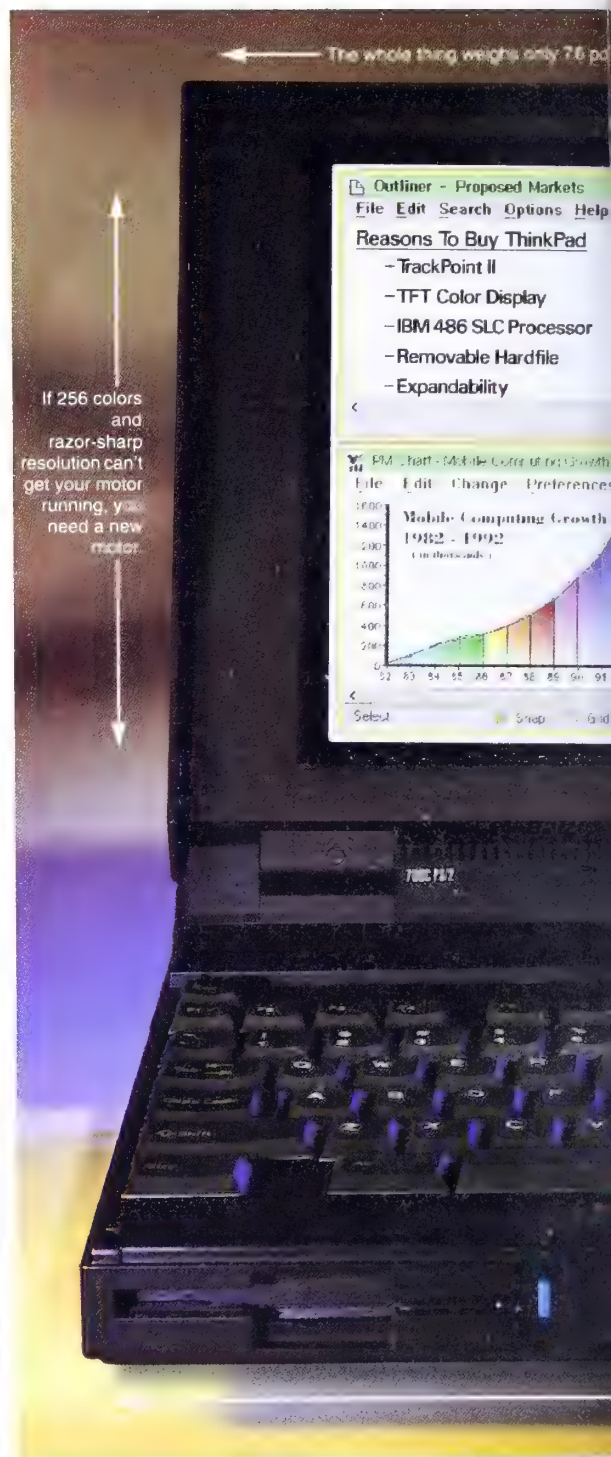
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a mainframe. a Maserati.

for one, they'll have to keep up with Japan's latest moves or risk falling behind once again. Meanwhile, Japanese companies are quietly laying the groundwork for renewed expansion.

They plan to deal with overcapacity in Japan by shutting older plants and producing mainly high-sticker-price cars there for export, then shifting output of lower-end models overseas. As the big companies expand overseas, Kume predicts, they will create a system of global

networks, with regions specializing and supplying one another. Engines built in Mexico, say, may be shipped to the rest of the world. Producing worldwide will help offset trade frictions and give the auto makers a presence in each market, the better to adapt products to local tastes. They also see new markets to conquer in Eastern Europe, Russia, and China, though protectionist measures will probably limit access there. "There are still many people left in the world

who can enjoy cars," says Toyota Chairman Shoichiro Toyoda.

In short, Japan's auto industry is readying itself for slow growth but for an end to expansion. And given determination with which the companies are moving to adjust to the 1990s, seems doubtful their current woes will keep them down long.

By Karen Lowry Miller in Tokyo, and David Woodruff in Detroit and Thompson Peterson in New York

HOW HONDA HAMMERED OUT ITS NEW ACCORD

Honda Motor Co. set out to develop a new car in 1985, and within months an uproar ensued. Make the car roomy and reliable, demanded U.S. sales reps. Make it sexy and sporty, clamored Japanese dealers. Engineers tinkered with new engines, and marketers fretted over diverging tastes. All the while, bean counters advocated the established practice of selling the same car in all markets—a world car. Tempers flared, paralysis set in, and deadlines were missed. "It was not a happy time," recalls project leader Takeomi Miyoshi.

Amid all the confusion, Honda ended up blowing extra millions on two half-successful models. A five-cylinder car called the Vigor, designed for Japanese tastes, ultimately sold well in Japan but not in the U.S. A four-cylinder model, the Accord, wowed U.S. buyers, becoming America's No. 1 seller for the past three years—but it bombed in Japan. So as Honda started on the '94 Accord, due out next fall, it made a basic decision: Forget the world car. Develop variations of the Accord for the U.S., Europe, and Japan. But save lots of money by making at least 50% of each car the same—including the chassis and transmission.

NO MORE SNAFUS. This should avoid many of the last go-round's miscues. In 1986, for instance, Honda's research and development team unveiled a peppy, five-cylinder, in-line engine—and pushed it for the Accord. Right away, Honda's U.S. staff balked. Lining the cylinders up front-to-rear cut into interior space, a major mistake for the U.S. market. And Honda had a U.S. four-cylinder-engine factory that would be hard to retool.

There was a further dispute over styling: Should the body be customized

for different markets? Honda's consensus management, left over from its startup days, meant nothing happened unless everyone agreed. But by this time, the company was so bureaucratic that talks went in circles. Time ran out. So Honda settled on a single Accord, though at 66 inches wide, a norm in Japan, it's 2 to 4 inches narrower than rival models. To use its new engine, Honda developed the Vigor.

All the waffling was too much for Honda President Nobuhiko Kawamoto. "The mistake I won't tolerate again is indecision," he says. In March, 1991, he

plant came with their families to Japan for up to three years. Their mission: help design equipment needed to make the '94 Accord in Ohio.

Just six months into development instead of last time's 18 months, Honda held a brainstorming session that included about 100 marketing, sales, and design people from the U.S. and Britain, where its new European factory just opened. Shinya Iwakura, top Honda executive, estimates that Honda's U.S. contingent contributed 30% to the development of the four-door Accord, vs. 10% for the previous model, and 80% to the Accord station wagon, vs. 50% on its earlier model.

RISKY MOVE. The U.S. Accord is still secret. But Iwakura says it will be a longer, shorter, wider, and more "luxurious feeling" than the current model. It will look sportier, Miyoshi adds. But it won't change radically. In fact, Honda may not offer a V-6 engine, since Iwakura hopes to get similar power from a new four—plus save money and preserve fuel economy. That's risky: The Big Three, Toyota, and Mazda all offer a V-6.

Whatever Honda decides, it has little room for error. The Accord accounts for half the company's U.S. unit sales. And Ford cements Accord's No. 1 ranking. Through November, 359,146 Accords had been sold, only 14,719 more than Ford's Taurus, according to *Ward's Automotive Reports*. Accord's market share is down a tad this year to 4.8%, vs. Taurus' 4.6% and Toyota Camry's 3.4%. And Ford is selling heavily to rental car fleets in hopes of edging ahead. The question now: Will Honda's new approach produce an Accord that can remain the king of family sedans?

By Karen Lowry Miller in Tokyo, and Larry Armstrong in Los Angeles



At Honda, U.S.-Japanese cooperation is on the rise

ordered the biggest restructuring in Honda's history, splitting the company along product lines and taking personal control of autos. This year, he divided Honda's global auto operations into regions to better address local tastes. Designers in the U.S., Europe, and Japan could give their Accords unique looks, as long as they followed two guidelines: Halve development costs vs. the previous model and make wide use of shared parts.

To make the work go more smoothly, Honda got extra U.S. input early. Starting in August, 1990, some 56 engineers from Honda's Marysville (Ohio)



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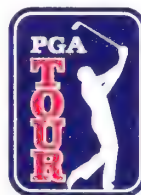
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BusinessWeek



GETTING RID OF PAPER IS JUST THE BEGINNING

Going from forms to electronic data means reinventing business

Two years ago, Connecticut Mutual Life Insurance Co. was drowning in a sea of paper. When one of its 1.2 million policyholders had a problem, someone at the Hartford company often had to call for a file that was stored in a warehouse the size of a football field. Vans stuffed with paper shuttled between the office and warehouse every hour. Simple changes to a policy "could take weeks," says Senior Vice-President Jan L. Scites.

Today, visitors to Connecticut Mutual might wonder whether it's still in the insurance business. Customer reps sit at IBM PCs, where they call up all the necessary forms and correspondence—converted into electronic form—to answer most questions. The upshot: Response to queries is down from five days to a few hours, 20 fewer people are involved,

and productivity is up more than 35%. Scites says: "That has given us an enormous competitive advantage."

That edge, however, stems not from simply getting rid of all those bulging files—no small feat in itself. The most important benefit of prying information off paper and cramming it into computers is getting the opportunity to rethink thoroughly how the company conducts business.

PUBLIC ENEMY NO. 1. Consider what happens when you get rid of the humble business form. Despite the flood of computers into Corporate America, the multipart business form remains the staple of commerce 100 years after its invention. Everything from your expense account to multimillion-dollar orders for equipment continues to be done on paper forms. Moore Corp., the leading produc-

er, figures that forms account for one-third of the 2.5 trillion pages that U.S. business generates each year. Corporations also spend \$100 billion processing forms, Moore estimates.

Now, Connecticut Mutual, as well as dozens of other companies and government agencies, has identified this paper as Public Enemy No. 1 in efforts to reorganize, streamline, and reengineer operations. Paper forms take up too much room, cost too much to process, and are difficult for computers to deal with. Scanners still can't accurately translate handwriting into computer code, and rekeying information into computers inevitably leads to errors. Worse of all, doing business on paper slows the pace of the enterprise down to the speed at which paper makes its leisurely way from the desk of one paper-pusher to the next.

So organizations are trying to make operations function without such paper. They're using workflow automation to lay paths for electronic documents to travel automatically from desk to desk in a fraction of the time it would take them to move physically. They're employing "smart" forms, which look just like their paper analogs but can cut errors as they're being entered and m-

en be able to route themselves to the
ht worker.

But unlogging the paper jam in one
npany is only part of the solution.
at's why companies are flocking to a
stem called electronic data inter-
ange (EDI), a scheme for helping sup-
ers, manufacturers, and their custom-
s exchange communications directly,
nputer to computer. Instead of send-
g off a paper form to order a new
ply of rubber soles and waiting days
the paperwork to kick in, the shoe
nufacturer's computer will automati-
cally enter the order in the sole maker's
nputer, which will simultaneously
-alert the warehouse, the fac-
y, the accounting department,
e billing department, and the
ipping department.

This paperless process really
ys off when it's applied to as
any transactions as possible.
neral Electric Co., for example,
ys it's halfway to its goal of han-
ng 80% of its business transac-
ns by direct EDI links. So far,
's system involves 2,500 trading
rtners and has eliminated almost
million business forms a year—
st at the GE end. Eventually, it
ll save "tens of millions of dol-
rs," predicts Ed Malcolm, GE's
anager of EDI services.

Indeed, after several years' ges-
tion, EDI use has reached critical
ss. Some 37,000 U. S. companies
e now actively involved, up from
st 2,000 in 1987, and twice that number
ould take part next year. Even now,
al-Mart Stores Inc. and General Mo-
rs Corp. prefer not to do business with
pliers on paper. They must use EDI to
ceive orders and respond electroni-
cally. All that requires, though, is a PC, a
odem, and some EDI software from
ch companies as TSI International or
M. For Wal-Mart, the tighter link is
ucial to its strategy of avoiding inven-
ry buildup and price markdowns.

CKLED TAXMAN. Royal Bank of Cana-
a, meanwhile, is working to make
1,600 of its branches—North
merica's largest network—virtu-
ally 100% free of paper forms.
hey've already been largely elimi-
nated from tasks such as opening
accounts and applying for loans.
Officers can call up a customer's
edit history on their desktop
computers and approve some loans
ght on the spot. That was impos-
sible when the information was
cked away in file drawers.

The U. S. government, the
world's top paperwork factory, has
ren bigger plans. The Pentagon's
even-year-old computer-aided ac-
quisition and logistics support
(ALS) initiative aims to scrap paper

in favor of electronic media for complex
weapons systems. A jet fighter's service
manual, running to thousands of pages,
could go on a compact disk, for instance.
The National Security Industrial Assn.,
a trade group of defense contractors,
reckons CALS could cut the time for de-
veloping a weapon by 40%. EDI also will
help the military shop for the 50,000
items worth \$25,000 or less that it buys
each day.

The Internal Revenue Service, which
now processes 1.7 billion pieces of paper
annually, has launched an \$8 billion pro-
gram to go nearly paperless by decade's

president of Roy Walters & Associates,
a consultant in Mahwah, N. J. But if you
scrap the cumbersome procedures that
have grown up around paper forms, you
can make big gains in productivity and
competitiveness.

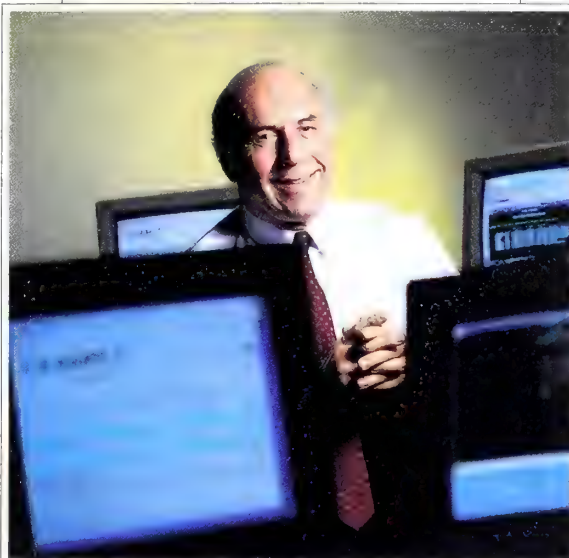
FORMLESS VOID. That's what happened
at Sears, Roebuck & Co.'s Discover Card
unit. To sign up a new merchant, it used
to take six forms and an average of 14
days to process. But today, portable
computers capture the same information
just once, and a central mainframe helps
a team of workers complete the approval
cycle in just one day.

Of course, as more paper disin-
tegrates into electronic bits, the \$8
billion business-form industry is in
for wrenching change. "A lot of
business forms are going to disap-
pear," fears John K. Darragh,
president of Standard Register
Co., the No. 2 player. And as they
do, Darragh figures, the industry
may shrink to \$6 billion or \$7 bil-
lion in 10 years. The biggest form
maker, \$2.5 billion Moore Corp. in
Toronto, is already feeling the ef-
fects. Its 1991 earnings of \$88 mil-
lion were off 56% from its 1989
record, partly because of the reces-
sion. And in the first nine months
of 1992, its earnings were down
30% from a year earlier. "The
forms business is mature," says
John R. Anderluh, president of
Moore North America.

So Moore and its competitors
are gearing up for their own electronic
futures. They're beginning to sell elec-
tronic-forms software, and after decades
of designing forms for customers, they
figure that they understand how corpo-
rations use information. So they want to
become information consultants. Unfor-
tunately, that would mean competing
head-on with such industry giants as
Electronic Data Systems, IBM, and An-
dersen Consulting.

Clearly, computers aren't about to
push paper completely out of the office
overnight. Many hurdles remain.
Back in 1985, for example, the
Automotive Industry Action Group
predicted that, by stemming the
paper flow between auto makers
and their parts suppliers, the aver-
age car's production cost would go
down \$200 by 1988. No such sav-
ings ever occurred, though, be-
cause carmakers couldn't agree on
how to format EDI messages. Even
today, GM and Ford Motor Co.
haven't agreed on internal EDI
plans. And both, you can be sure,
still have more paper than they
would like. But soon, they say,
they'll have less.

*By William C. Symonds in
Toronto, with bureau reports*



ANDERLUH: BUSINESS-FORM PROFITS HAVE NOSEDIVED

end. Among other goals, the IRS aims to
receive 100 million tax returns electroni-
cally, up from just 11 million this year.
The benefits: cutting return-processing
time from six weeks to two weeks and
making old returns available instantly to
taxpayers. Today, such returns can take
10 weeks to find.

Just eliminating paper doesn't neces-
sarily make for better productivity. "If
you simply electronically replicate this
[paper] factory, you haven't accom-
plished anything," says Robert Janson,

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cally each year

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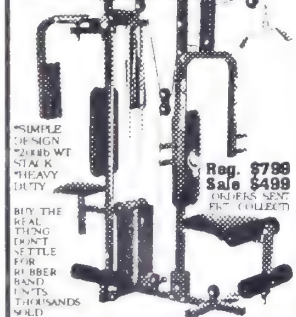
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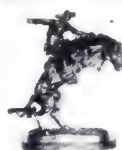
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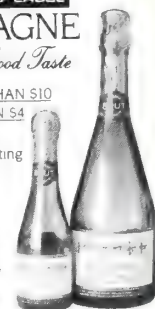
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THE CORPORATE CHOICE

OH, THE PLACES YOU'LL GO: GIFT BOOKS FOR EVERY BUDGET

Holiday shoppers, take heart: In areas from art to Americana to nature to nostalgia, publishers are out with tempting new tomes—including delightful mixed-media offerings. And this year, many gift books are affordable, some costing less than \$30.

Witty and entertaining, *America: Then & Now* (HarperCollins/San Francisco, \$40) pairs evocative old photographs, taken over the past 130 years, with contemporary shots of the same venues. The scenes include skylines, assembly lines, women's gyms, bicycle messengers, operating rooms, sporting events, movie sets, drive-in diners, and much more. The photos depict not only the dramatic changes but also the stark continuities in American life.

Almost as much fun is *The Eighties: Images of America* (HarperCollins, \$40). It's a romp, via 750 captioned black-and-white photographs, through the events and trends of the recent past. There's Brooke Shields in her Calvins, van Gogh on the auction block, and corporate raider Saul Steinberg in a tuxedo. There's also tragedy in El Salvador, Lockerbie, and Iran. Arranged by year, the book documents the decade, almost *Life*-style.

OUTSIDE EYE. From *Sea to Shining Sea: A Portrait of America* (Norton, \$50) offers another view of the nation—by Japanese photojournalist Hiroji Kubota. This rich account of America's diversity is the product of three years, 490,000 miles of travel to all 50 states, and 3,500 rolls of film. Among its scenes: harvesting maple syrup in Ver-

mont, cotton picking in Mississippi, and fly-fishing in Idaho.

The art book of the year is *Henri Matisse: A Retrospective* (Abrams, \$75), the catalog for the biggest Matisse exhibit ever (now at New York's Museum of Modern Art).

Boasting more than

though, *The Art Pack* (Knopf, \$40) would do it. This one-of-a-kind book is a three-dimensional tour of the art world, complete with pop-ups, pull-outs, a mobile, and an audio-cassette dis-

In Artists' Homes (Clark Potter, \$40) gives readers a window on the worlds of contemporary artists. It shows how they designed environments to be works of art in themselves, art showcases, retreats, or sources of inspiration, all in different styles. While it's no surprise that

Agnes Martin's adobe home is as pared down as her minimalist paintings or that Richard Estes' belongings are as neatly arranged as his realist works, it's so fascinating to see how these artists organized their living spaces.

SPECIAL EFFECTS. *George Lucas: The Creative Impulse* (Abrams, \$39.95) chronicles a different kind of imagination—that of the man whose name is synonymous with movie magic. More than a biography of Lucas, this book tells how he created the dazzling technological effects of such films as *Star Wars* and the *Indiana Jones* series. Fans will love the stills and behind-the-scenes shots.

Just as *Lucas* changed Hollywood, two men decades earlier transformed American music theater forever: *Rodgers & Hammerstein* (Abrams, \$45) venerates the team, whose leg-

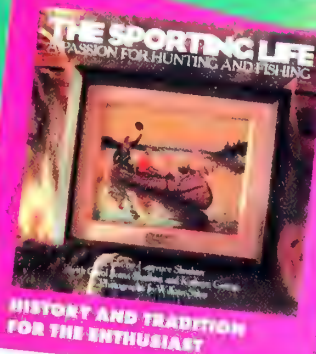
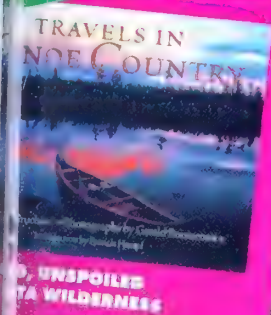
dary career took off in 1943 when the curtain rose on *Oklahoma!* Filled with anecdotes and illustrated with some 200 backstage and promotional photographs, the book is a charming look at the collaboration that produced such beloved shows as *The King and I*, *South Pacific*



400 works, 320 in color, and an authoritative commentary tracing the artist's development, this exuberant book is essential for art lovers, especially those who can't get to the exhibit.

If *Matisse* could be eclipsed,

cussing 20 great paintings. But it's no mere art history. Instead, this feat of paper engineering teaches form, perspective, composition, color, light—the act of creating. Words don't do *The Art Pack* justice: You have to see and feel this real treat.



Flower Drum Song, though it's packed with trivia, there's no nostalgia in *Notorious* (Little, Brown, \$75)—famous names and art and entertainment as seen through the eyes of renowned photographer Herb Ritts. His sly, often humorous photos portray his subjects as objects. Sometimes an obscure identity or focus on a single feature, such as the muscular legs and torso of Jackie Joyner-Kersey. The eye on Michelle Pfeiffer, Cruise, Mikhail Gorbachev, and Stephen Hawking, among others, is unique.

Beautiful nature photography is on view in several books. *Seven Underwater Wonders of the World* (Tomasson-Grant, \$29.95) travels to places chosen as the ocean's most magnificent by a panel of marine specialists and normally accessible only to experienced divers. Among them: the Great Barrier Reef and the northern Red Sea. *The Colorado: A River at Risk* (Stetcliffe, \$50) tours the 1,400-mile river—the world's most regulated, dammed, and overutilized—thanks to which much of the West is arid. Both books aim to heighten awareness of environmental threats to these treasures. One photo—of a bumper-to-bumper pleasure boat on Arizona's Lake Mead—does the trick.

Montana: The Last Best Place (Falcon, \$29.50) documents the picture-postcard beauty of the land, sky, weather, people, and history in a state that's luring many city dwellers as

weekend residents.

For sheer beauty, it's hard to beat *The Sonoran Desert* (Abrams, \$49.50), a look at flora and fauna that flourish in daytime temperatures that soar above 120F.

INNER JOURNEYS. From *Alice to Ocean* (Addison-Wesley, \$50) tells in text and photos how a 27-year-old woman traversed Australia's outback alone on camel. But the book's real draw is a gimmick that

may herald the future of publishing: two interactive compact disks containing additional photos and data. Playable on an Apple Macintosh CD-ROM drive and a Kodak PhotoCD player, they allow the reader to dig for information on, say, Australia's geology.

Travels in Canoe Country (Little, Brown, \$35) takes a shorter journey—a canoe and foot trip through Minnesota's Boundary Waters Canoe Area. It, too, will appeal to those who would go where machines are forbidden. Stunning photos capture the unspoiled beauty of this wilderness area—from the subdued hues of morning mists to the deep purple evening shadows—while the text reflects on the inner journey the solitude fosters.

Sports fans will love *Sports* (Collins, \$45), which goes from diamond to ring to rink to court to links to catch the

world's greatest athletes at unforgettable moments. The 150 oversize photos include Hank Aaron notching his 715th home run and Kristi Yamaguchi winning her '92 Olympic gold medal. You've got to be a baseball nut to want *Baseball Memories* (Sterling, \$24.95), with its small type and busy presentation. But diehards will pore over this guide to baseball from 1900 to 1909, when the sport went truly national. The book is an illustrated compendium of minutiae on teams, players, officers, owners, managers, uniforms, reporters, ballpark locations, layouts, and the seasons.

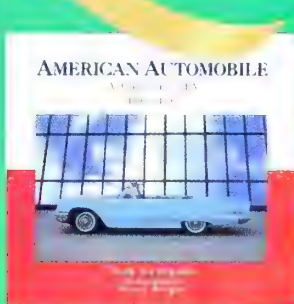
The Sporting Life (Clarkson Potter, \$40) details the traditions behind all varieties of fishing and hunting, documenting the look and style of each form of the chase. Readers tour the classic old camps, kennels, and clubs; they view the paintings, carvings, ornamental flies, and books. They go trout fishing in Pennsylvania, shooting in Texas, and visiting America's oldest duck club. And there's a directory of stores, museums, schools, and libraries that contain sporting necessities, appurtenances, and information.

VISIONARY VEHICLES. Car enthusiasts have two good choices. Tops is *The American Automobile: A Centenary* (Smithmark, \$24.98), a compilation of the country's classic cars from the steam vehicle on up to the 1992 Ford Taurus. It tells the history of the car in more than 300 color photos, then takes on the subject of auto collecting in the final chapter. Dedicated car buffs should proceed to *Cars Europe Never Built* (Sterling, \$30). These Jaguars, Alfas, Ferraris, Ghias, and others were speculations on the automobile's future. They never went beyond prototype, but many nonetheless influenced cars that were later produced.

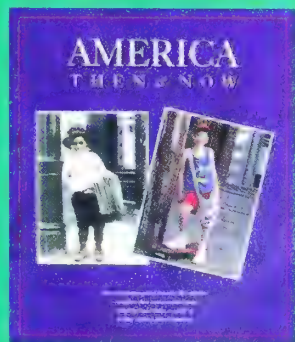
Given all these handsome and instructive selections, it may just be that this year, the book's the thing. *Judy Dobrzynski*



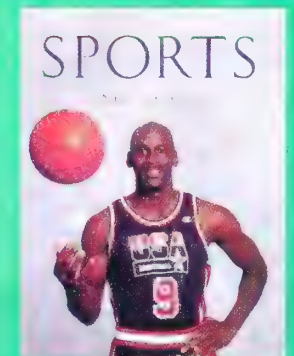
FASCINATING GLIMPSES OF 22 CREATIVE SPACES



CLASSICS FROM THE STEAM VEHICLE TO FORD'S TAURUS



HOW WE HAVE CHANGED —AND HOW WE HAVEN'T



FROM DIAMOND TO RINK TO COURT TO LINKS

Computers

SMALL WAYS TO WARM A TECHIE'S HEART

How do you stuff a computer nerd's stocking? You don't have to spend a fortune on software. There are lots of clever, inexpensive gifts at the corner computer store, perfect for your favorite technoid.

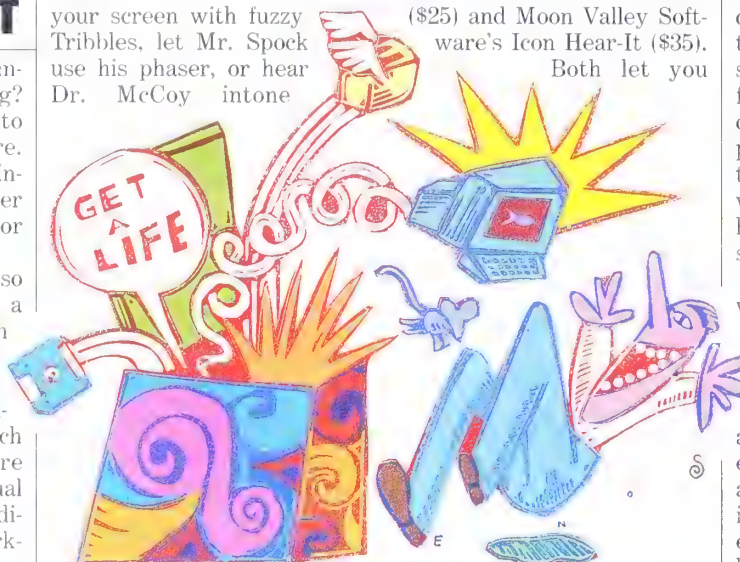
Nerds love making lists, so consider a daily planner on a disk. For about \$50, you can get *Far Side* or *Cathy* versions, with a new cartoon every day, or the sports edition of *Trivial Pursuit*, which keeps a tally of your score throughout the year. Annual refills (\$25) are available directly from Amaze, in Kirkland, Wash. (800 395-1546).

Screen savers are even more entertaining. Today's computers don't need them to prevent burned-in images, but we've gotten used to seeing those meaningless graphics on our idle screens. The classic

screen saver is Berkeley Systems' *After Dark* (\$35), whose flying toasters also adorn a line of T-shirts (\$11) and 100% polyester neckties (\$18). Now, Berkeley has come up with *StarTrek: The Screen Saver* (\$40). You can cover your screen with fuzzy Tribbles, let Mr. Spock use his phaser, or hear Dr. McCoy intone

ry is sound. The Mac has always had it, but Windows 3.1 makes it possible on the PC. Now, even without an expensive sound card, your PC's beeper can make outrageous noises. Good starter kits are Aristosoft's *Wired for Sound* (\$25) and Moon Valley Software's *Icon Hear-It* (\$35).

Both let you



"He's dead, Jim." Buy it at an Egghead Discount Software store and get *After Dark* for \$10. Both work on the Mac and on PCs with Windows; the sound system is built in.

The year's big new catego-

attach sounds to keystrokes: You can, say, make the backspace key pronounce "uh-oh." Another package, Mr. Sound FX (\$18), features the genius of Michael Winslow, who made those incredible me-

chanical, biological, and natural noises for the *Academy* movies.

Amusing accessories include a huge variety of mouse covers and holders (\$5-12), some of which look like a mouse. There are mouse pads that change color when you touch them; others are transparent so you can stuff them with family photos. A more practical idea is the mouse wrist pad (\$8), which moves the mouse and keeps your wrist from tiring out. Another hit is the disk wallet (\$12), which holds up to 10 floppy store floppies in transit.

And for those who need to want to log off, there's *SpreadSheets*: blue-lined computer paper executed in 180-count per inch (46). The sheets are available at Boston's Computer Museum (617 426-2800) along with more mouse items such as diskette covers (\$15) or printed-circuit board memo pads (\$36). Nonbelievers might enjoy a membership (\$35), which affords the recipient free admission and a 10% discount at the museum store. And that, of course, furthers the cause of nerdism. *Larry Armstrong*

If you're a baby boomer, odds are you're trying to save for retirement. After you set aside pretax money in a corporate 401(k) savings plan—or, for the self-employed, a Keogh—annuities often look like the answer. Annuity earnings compound tax-deferred, just as in a 401(k) plan or IRA. But unlike those vehicles, your annuity is almost always funded by aftertax dollars. While many savers choose a fixed-rate investment underwritten by the insurer, variable annuities, which let you invest in one or more in-house mutual funds, are increasingly popular.

FINE PRINT. But unless you're absolutely sure you won't need your savings between now and retirement, annuities can be costly. If you take your money out before you are 59½, the government socks you with a 10% penalty

Smart Money

ANNUITY HUNTING? A FEW CAVEATS

on top of ordinary income taxes on the amount you withdraw. Insurance companies will impose a fee if you bail out early, too. The with-

Costs on variable annuities can gobble up your returns

drawal charges generally run 5% to 10% of the amount withdrawn: The sooner you touch your money, the higher the fee. Usually, such charges phase out in up to 10 years.

Variable annuities often

have additional charges ranging from 1.5% to 2.25% of your account's value. So you should not only read all the fine print in the prospectus but also make sure your potential return makes the fees, possible tax penalties, and potential surrender charges worthwhile. "It makes no sense to pay the higher expenses of a variable annuity if you chain yourself to money-market returns," says Glenn Daily, an insurance analyst in New York.

Variable annuities work best for those willing to buy high-risk investments, such as aggressive-growth stock funds. Still, some variable-

rate annuities sport fees high enough that you can choose more conservative strategies. And in all cases, whether variable or fixed-rate, you buy an annuity from a rated insurance company.

One option for those who balk at high fees, says William G. Brennan, tax partner at Ernst & Young, is a load equity index mutual fund. True, you give up the tax advantage, but management fees are razor-thin, and you have access to your money. In fact, Brennan believes even the cheaper fixed-rate annuities have a rival: series EE savings bonds. With their securities, your money compounds tax-deferred, and you earn at least 6%—about the same as a conservative managed annuity—provided you hold the bonds five years or more, and Uncle Sam doesn't charge surrender fees. *Chris Farley*

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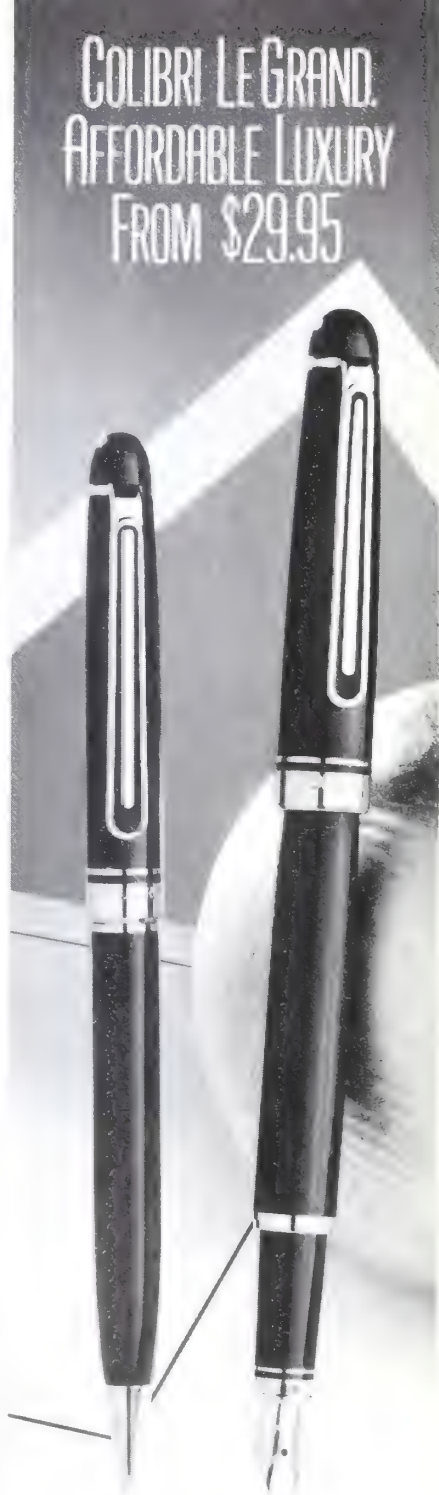
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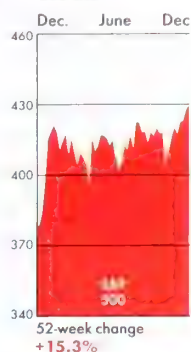
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Investment Figures of the Week

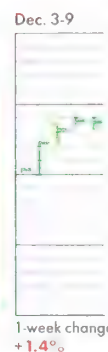
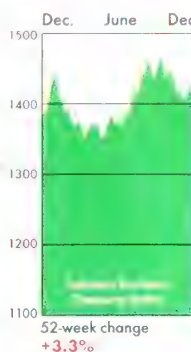
COMMENTARY

...staged a modest three-day rally before leveling off on Dec. 9. Investors had better luck in the over-the-counter market, where small-cap stocks concluded 10 of 11 consecutive gains. Weak oil prices continued to give a boost to stock prices, by reducing concerns about interest rates. They gave a shot in the arm to energy stocks. But oil drilling and production stocks have also been hurt over both the long and short term.

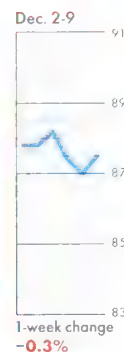
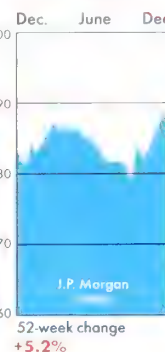
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3323.8	1.1	16.0
COMPANIES (Russell 1000)	232.5	1.2	16.3
IND. COMPANIES (Russell 2000)	216.9	1.3	24.1
TECH. COMPANIES (Russell 3000)	248.4	1.2	16.9

FOREIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
DOW JONES (FINANCIAL TIMES 100)	2750.7	-0.5	15.6
DOW JONES (NIKKEI INDEX)	17,406.2	0.1	-19.1
DOW JONES (TSE COMPOSITE)	3285.5	0.6	-2.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.31%	3.39%	4.24%
30-YEAR TREASURY BOND YIELD	7.44%	7.57%	7.81%
S&P 500 DIVIDEND YIELD	2.84%	2.88%	3.25%
S&P 500 PRICE/EARNINGS RATIO	24.1	23.8	21.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	416.9	416.0	Positive
Stocks above 26-week moving average	61.0%	57.8%	Neutral
Speculative sentiment: Put/call ratio	0.35	0.35	Neutral
Insider sentiment: Vickers sell/buy ratio	1.95	2.00	Positive

INDUSTRY GROUPS

4-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
MANUFACTURED HOUSING	19.7	40.9	FLEETWOOD ENTERPRISES	22.0	43.9	47 1/8
RECREATION TIME	19.7	47.3	HANDLEMAN	27.6	18.1	13 7/8
BUILDING MATERIALS	14.9	52.1	MASCO	17.0	44.4	29 1/4
TRANSPORTATION SERVICES	14.3	54.2	RYDER SYSTEM	16.3	59.0	27 3/8
AUTOMOBILES	13.6	57.0	CHRYSLER	23.7	183.0	33 1/4
4-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
OIL AND GAS DRILLING	-11.7	25.5	ROWAN	-16.7	42.9	7 1/2
HOSPITAL MANAGEMENT	-6.9	-14.3	HUMANA	-10.2	-16.5	20 7/8
OIL WELL EQUIPMENT AND SERVICES	-6.2	-1.0	BAKER HUGHES	-12.9	-3.3	18 1/2
GOLD MINING	-5.6	-17.2	HOMESTAKE MINING	-7.7	-35.4	10 1/2
AIRLINES	-5.0	1.8	DELTA AIR LINES	-9.7	-11.3	53 1/4

MUTUAL FUNDS

LEADERS	4-week total return	%	LAGGARDS	4-week total return	%
JOHN HANCOCK SPECIAL EQUITIES	14.1		MONITREND GOLD	-10.9	
PBHG GROWTH	13.5		BENHAM GOLD EQUITIES INDEX	-8.0	
SHEARSON SMALL CAPITALIZATION A	12.5		NEWPORT TIGER	-8.0	
	52-week total return	%		52-week total return	%
FIDELITY SELECT SAVINGS & LOAN	73.8		LEXINGTON STRATEGIC INVESTMENTS	-60.3	
FIDELITY SELECT REGIONAL BANKS	58.0		UNITED SERVICES GOLD SHARES	-54.4	
WATKINS	55.6		VAN ECK INTERNATIONAL INVESTORS	-33.1	



RELATIVE PORTFOLIOS

...amounts represent the present value of \$10,000 invested one year ago in each portfolio. Percentages indicate 1-day total returns.



...data on this page are as of market close Wednesday, Dec. 9, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

Dec. 8. Mutual fund returns are as of Dec. 4. Relative portfolios are valued as of Dec. 8. A more detailed explanation of this page is available on request.

CHANNELING BIG STORES' AWESOME CLOUT

With enormous marketplace power, a small circle of merchants is determining more and more how consumer products are made and sold in the U.S. They're telling even the mightiest of manufacturers what goods to make, in what colors and sizes, how much to ship, and when. They are forcing suppliers to rethink whom they sell to, how they price and promote products, and how they structure their own organizations (page 66).

A vast consolidation in U.S. retailing has produced giant "power retailers" that use sophisticated inventory management, finely tuned selections, and, above all, competitive pricing to crowd out weaker players and attract more of the shopper's dollar. The top tier of superpowers includes Kmart, Target, Toys 'R' Us, Home Depot, Circuit City, Dillard, and a few others. Leading the pack, of course, is Wal-Mart Stores. The nation's No. 1 retailer is expected to grow 25% this year, to some \$55 billion in sales, at a time when retailers as a whole will be lucky to grow 4%.

The increasing influence of these retailers has obvious benefits for consumers. For starters, the stores are continually wringing excess costs out of the U.S. distribution system while squeezing price concessions out of suppliers. Many shun the constant promotions, coupons, and "sales" that introduce big inefficiencies. Much of the savings gets passed along to consumers in the form of lower prices. And because these retailers use sophisticated information technology to keep close tabs on what's selling and what's not, consumers are likelier to find what they want in the stores.

The risk is that small manufacturers, who lack the resources or savvy to cope with the inherent bias toward large manufacturers, won't be able to compete. Innovation and risk-taking could also be diminished. Those dangers must be monitored vigilantly by federal and state antitrust authorities. But pressure from the power retailers also benefits manufacturers by forcing them to become leaner and more nimble themselves. They're becoming more competitive with each other—and with overseas rivals. Some have wrested U.S. markets away from foreign manufacturers by cutting costs or reducing cycle time, and some have even been able to penetrate overseas markets, thanks to their new efficiency.

SEASONED ADVISERS CAN TAKE CLINTON ONLY SO FAR

In selecting leaders of his economic team, President-elect Bill Clinton seems to be off to a good start at filling the most important jobs in his Administration. His early choices, short on fresh faces and long on Capitol Hill experience, are safe, intended to convey a commitment to competence and moderation rather than innovation (page 26).

Senator David Bentsen (D-Tex.) built a solid reputation as a student of the economic impact of government policy dur-

ing his six years as Senate Finance Committee chairman and his earlier tenure as Joint Economic Committee chairman. His passion is tilting the tax code to promote saving and investment, which should sit well with the Clintonite.

Representative Leon E. Panetta (D-Calif.), chairman of the House Budget Committee, would run the Office of Management & Budget with a fervor for cutting the deficit. The plan to nominate him is a welcome signal that Clinton is serious about cutting the deficit in half during his first term.

Others who seem headed for senior jobs—investment bankers Robert E. Rubin and Roger C. Altman, and former Congressional Budget Office Director Alice M. Rivlin—also familiar with the levers of power in the capital.

In his desire to staff up with folks who know how to get things done in Washington, however, Clinton could overlook his Administration with the sort of insiders who have given Washington a bad name. Experience is a virtue—but only to a point. We also hope to see some of those bright faces from state governments, business, and the universities that Clinton told us he was going to bring to the capital.

HONG KONG NEEDS A QUICK, QUIET SETTLEMENT

To an outsider, the dispute between Hong Kong and China seems like a tempest in a teapot. After all, the argument is about increasing the number of directly elected seats on the Crown Colony's legislative council—from 20 perhaps 40 out of 60. By no means does this amount to representative government, as the Chinese fear. Yet Beijing's stern warnings to desist from the plan have upset the Hong Kong business community, triggering gyrations in the stock market (page 46).

The dispute has been inflamed by two issues: Governor Chris Patten went public with the plan apparently without much consultation with the Chinese. This mortified Beijing, which felt it had lost face. Second, the Politburo is afraid that any change could quickly spread to South China, whose booming economy is directly linked to Hong Kong's.

It's easy to be cynical about the British timing. After they have been ruling Hong Kong for 150 years, so why the sudden interest in democracy? But it is because of the British that Hong Kong enjoys fundamental rights that don't exist in China, such as the rule of law and civil liberties. Preservation of these rights, they say, is the motive for making changes before the 1995 elections—the last Hong Kong vote held before China takes over in 1997.

There is plenty of common ground for resolving the dispute quietly, without China losing face. Any backsliding by Beijing could deter the foreign investment so crucial to the Chinese boom. For Washington, the proper response is to support bilateral talks on electoral reform. But the U.S. should also make it clear that China must move toward democracy and human-rights guarantees in both Hong Kong and China. If Beijing is unwilling to accept reform, pressure is likely to build in Congress to deny it most-favored-nation status. That would hurt both China and Hong Kong. The two sides should work things out—pronto.



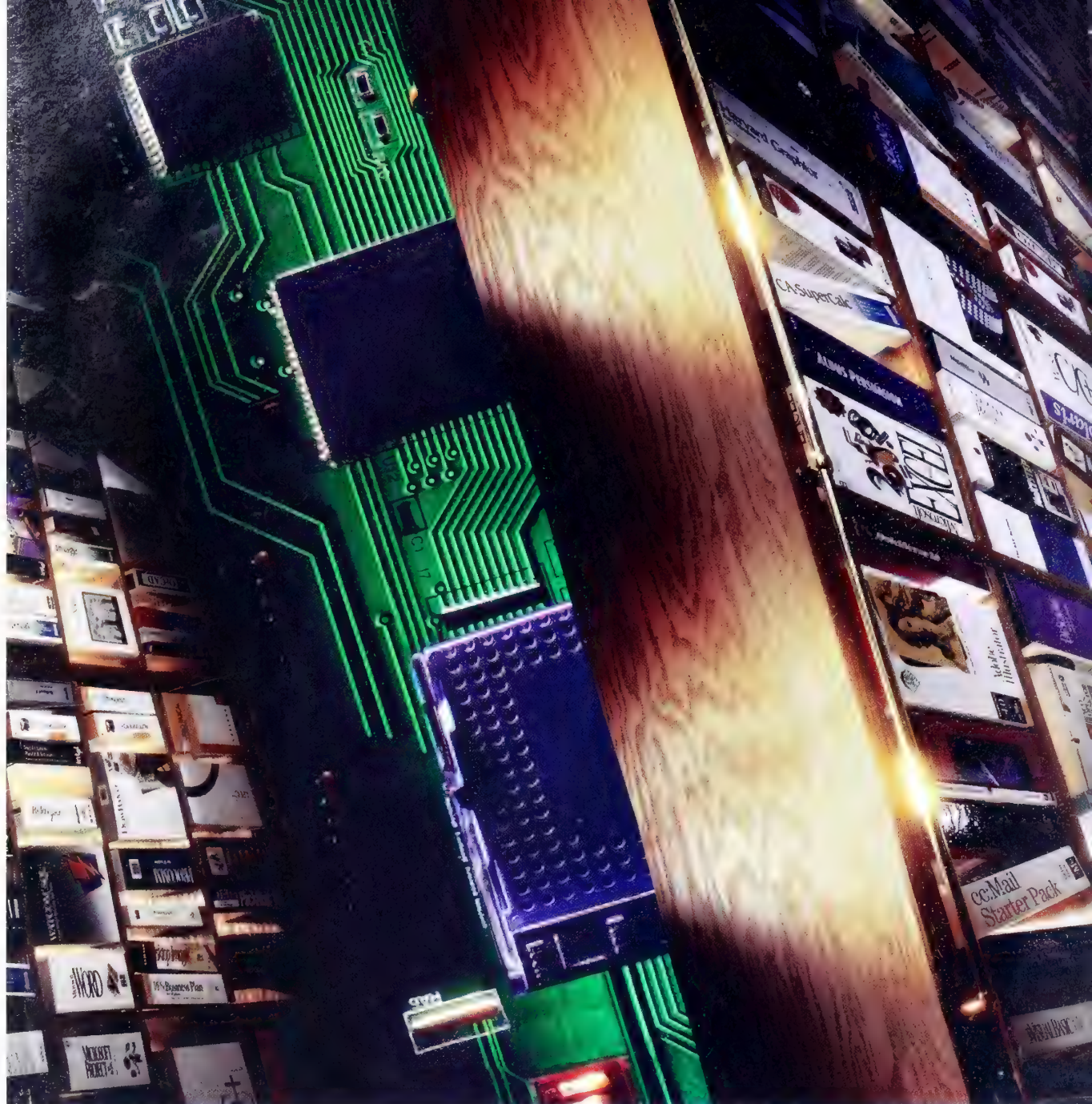
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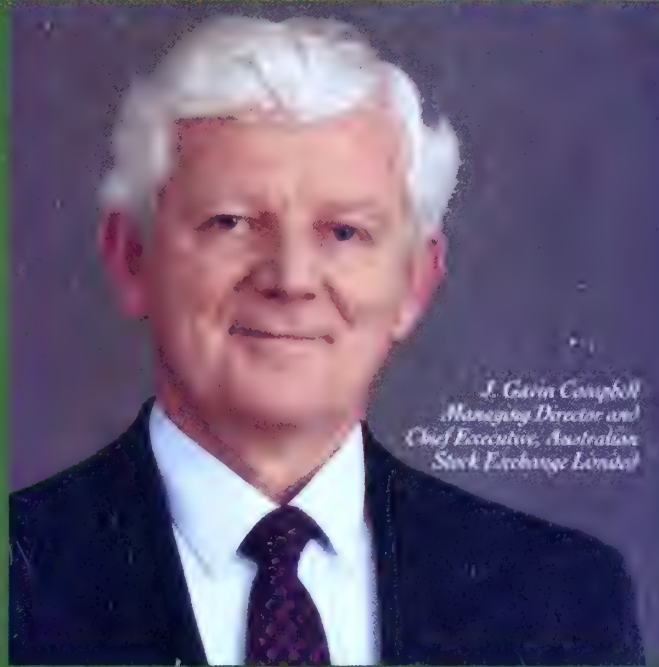
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0.20	0.20	0.20	300	NORTH GOLD	0.20	0.20	0.20	300	0.20
0.04	0.05	0.04	10	NORTH QUAY	0.04	0.05	0.04	10	0.04
0.00	0.10	0.00	100	NORTH LAND	0.00	0.10	0.00	100	0.00
0.00	0.00	0.00	0	NORTH OVER	0.00	0.00	0.00	0	0.00
0.00	0.00	0.00	0	NORTH	0.00	0.00	0.00	0	0.00
0.52	0.54	0.52	0	NOVA CORP	0.50	0.52	0.50	0	0.50
0.35	0.35	0.35	0	NOVA	0.35	0.35	0.35	0	0.35

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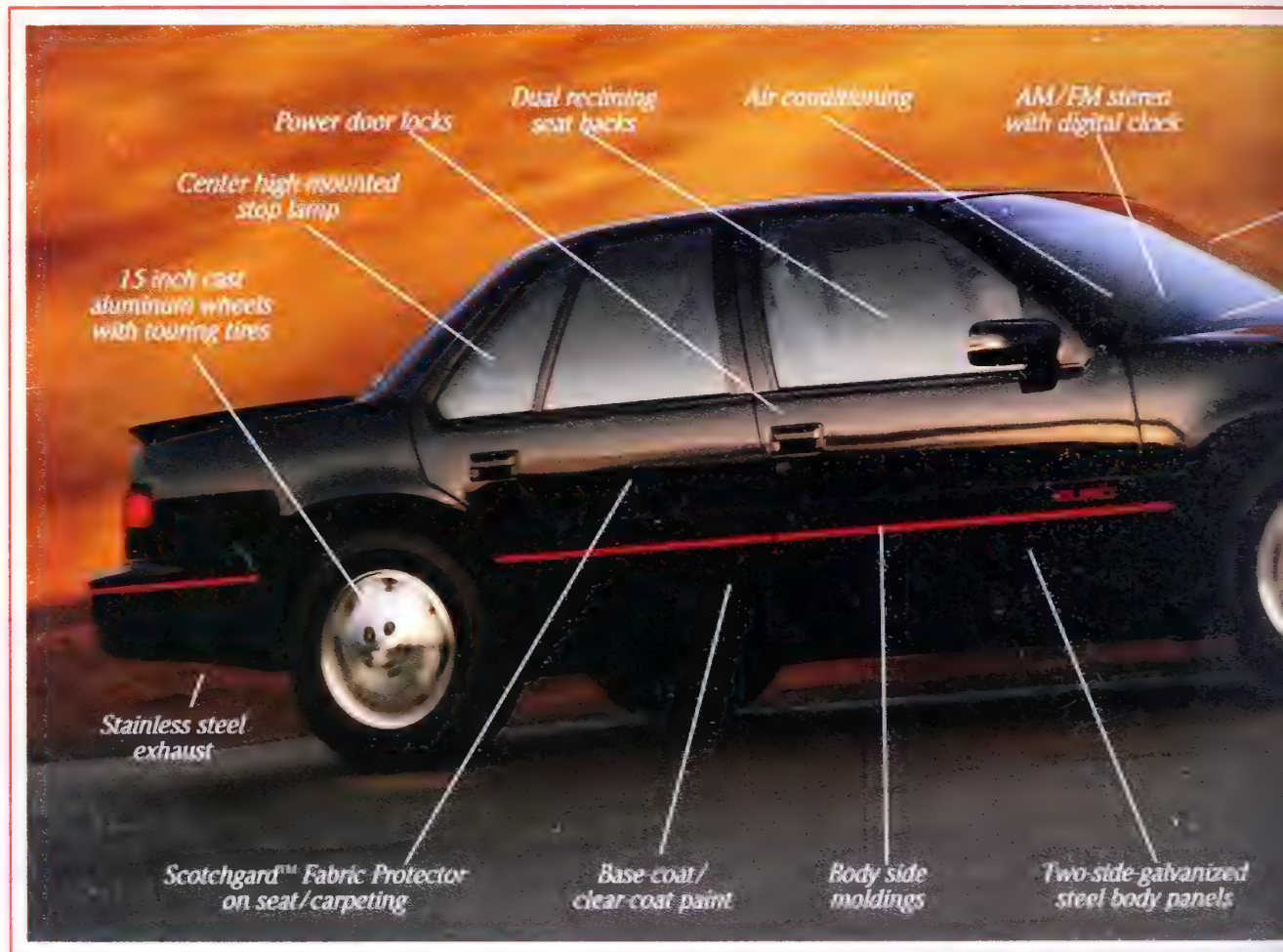
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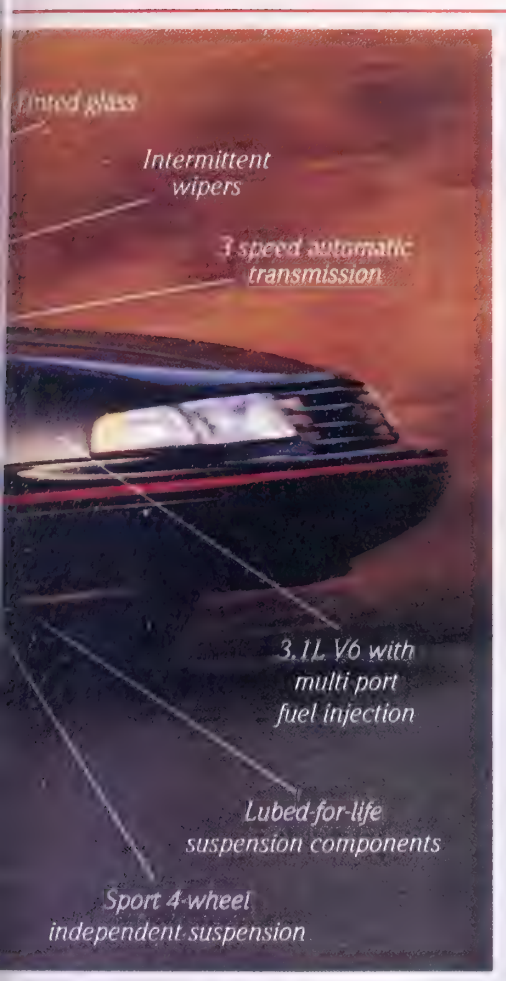
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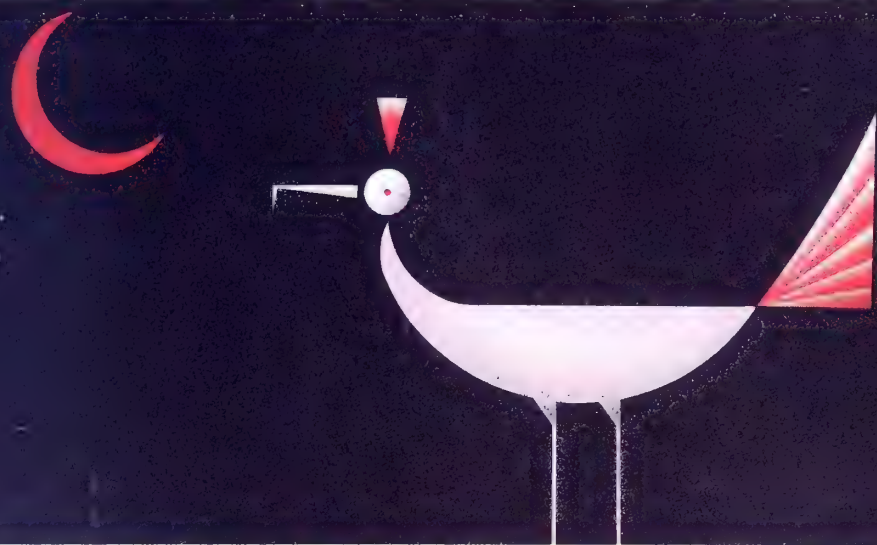
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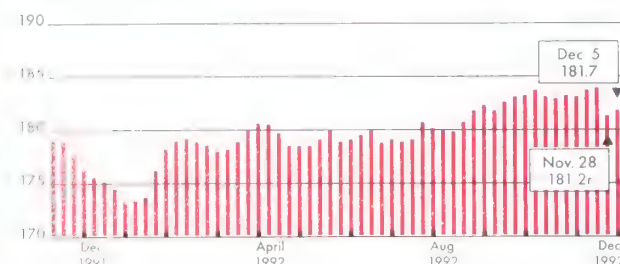
Extra copies of the Investment Outlook 1992 issue are available. For information and prices call single-copy desk at 609-426-5348

BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 3.1%

1967=100 (four-week moving average)

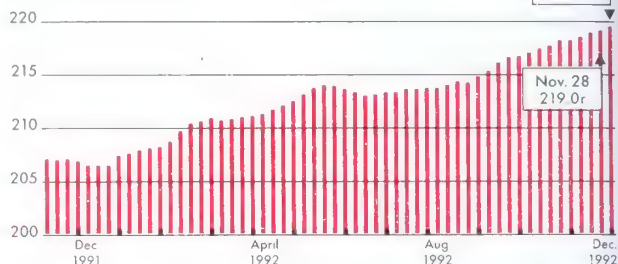


The **production index** increased during the week ended Dec. 5. Seasonally adjusted production of autos, trucks, and coal and rail-freight traffic rebounded sharply after plant closings during the Thanksgiving holiday. Lumber, crude-oil refining, and electric power output rose as well. Steel, paperboard, and paper production declined. Before calculation of the four-week moving average, the index rose to 184.4, after falling to 173.3 during the holiday-shortened week of Nov. 28.

BW production index copyright 1992 by McGraw Hill Inc.

LEADING

Change from last week: 0.2%
Change from last year: 6.1%



The **leading index** rose only slightly during the week ended Dec. 5. Higher stock prices and small improvements in the growth rates of real estate loans and M2 offset a steep increase in the number of business failures and deterioration in the growth of materials prices. Bond yields were unchanged from the preceding week. Before calculation of the four-week moving average, the index stood at 219.6, up a bit from 219.4 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (12/12) thous. of net tons	1,697	1,686#	-2.0
AUTOS (12/12) units	132,434	130,207r#	7.0
TRUCKS (12/12) units	100,301	93,041r#	24.5
ELECTRIC POWER (12/12) millions of kilowatt-hours	61,073	58,521#	11.1
CRUDE-OIL REFINING (12/12) thous. of bbl./day	13,158	13,625#	-2.1
COAL (12/5) thous. of net tons	19,165#	15,704	-0.8
PAPERBOARD (12/5) thous. of tons	796.2#	818.0r	0.8
PAPER (12/5) thous. of tons	760.0#	773.0r	-0.9
LUMBER (12/5) millions of ft	475.2#	328.7	-1.6
RAIL FREIGHT (12/5) billions of ton-miles	22.2#	17.3	7.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, VVWPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (12/16)	123	124	128
GERMAN MARK (12/16)	1.55	1.57	1.56
BRITISH POUND (12/16)	1.58	1.57	1.84
FRENCH FRANC (12/16)	5.31	5.36	5.32
CANADIAN DOLLAR (12/16)	1.28	1.28	1.16
SWISS FRANC (12/16)	1.40	1.41	1.38
MEXICAN PESO (12/16)	3,117	3,100	3,075

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (12/16) \$/troy oz.	337.300	333.500	-8.0
STEEL SCRAP (12/15) #1 heavy, \$/ton	92.50	89.00	-0.5
FOODSTUFFS (12/14) index, 1967=100	204.0	203.2	-0.9
COPPER (12/12) c/lb.	103.0	101.0	0.6
ALUMINUM (12/12) c/lb.	54.5	54.9	8.1
WHEAT (12/12) #2 hard, \$/bu.	3.78	3.81	-5.0
COTTON (12/12) strict low middling 1-1/16 in., c/lb.	52.59	51.85	-2.4

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/11) S&P 500	435.26	430.80	14.0
CORPORATE BOND YIELD, Aaa (12/11)	8.00%	8.06%	-4.0
INDUSTRIAL MATERIALS PRICES (12/11)	97.0	96.9	3.0
BUSINESS FAILURES (12/4)	457	390	-4.0
REAL ESTATE LOANS (12/2) billions	NA	\$399.8r	N
MONEY SUPPLY, M2 (11/30) billions	\$3,430.9	\$3,428.9r	0.0
INITIAL CLAIMS, UNEMPLOYMENT (11/28) thous.	324	362	-21.0

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Nov.) annual rate, thous.	1,242	1,224r	14.0
INDUSTRIAL PRODUCTION (Nov.) total index	109.7	109.3r	1.0
CAPACITY UTILIZATION (Nov.)	78.9%	78.7%r	0.0
CONSUMER PRICE INDEX (Nov.)	142.0	141.8	3.0

Sources: Commerce Dept., Federal Reserve Board, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/30)	\$1,020.7	\$1,014.6	13.0
BANKS' BUSINESS LOANS (12/2)	280.3	280.8r	-5.0
FREE RESERVES (12/9)	843	1,194r	70.0
NONFINANCIAL COMMERCIAL PAPER (12/2)	150.9	149.9	11.0

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (12/15)	3.17%	2.77%	4.49
PRIME (12/16)	6.00	6.00	7.50
COMMERCIAL PAPER 3-MONTH (12/15)	3.71	3.74	4.53
CERTIFICATES OF DEPOSIT 3-MONTH (12/16)	3.43	3.56	4.48
EURODOLLAR 3-MONTH (12/11)	3.54	3.80	4.45

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



Power Play

Golf and business. The team to beat.

The 1992 Senior TOUR Journal

Issue Date: February 8, 1993

Ad Closing Date: December 21, 1992

The Business of the PGA TOUR

Issue Date: May 3, 1993

Ad Closing Date: March 15, 1993

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Larry Kossack

Business Week

Golf Projects Director

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BusinessWeek

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a system that saved taxpayers \$13 million while making Medicaid recipients feel more a part of the mainstream health care system.

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Results and



CORRECTIONS & CLARIFICATIONS

table entitled "America's world-class firms," which accompanied the article "Beg, borrow—and benchmark" (Special Report, Nov. 30), was based partly on information that had been published earlier in *Industry Week* magazine. BUSINESS WEEK should have edited *Industry Week* as one of the sources for the table.

(ud). Yet the insurance system poses to treat all injured workers as if they were malingerers and "symptom gnifiers."

There are many ideas that could lead helping injured workers become medically stable and help them return to active employment. One of those ideas is to turn over the determination of need for care, or the determination of quality of care, to the uneducated, inexperienced mind of the average claims adjuster or supervisor.

Jeffrey R. Kreider
Westlake, Ohio

WANT TO BE COMPETITIVE? TAKE EDUCATION QUALITY TIME

I agree with the editorial "How to spread the gospel of quality" (Nov. 1), but I would amend it to emphasize the need to integrate the principles of quality into our schools, from the elementary grades to graduate level. When we begin to graduate students whose educational experience has both taught and exemplified the concepts of quality and consumer satisfaction, we will indeed have turned the corner in world competitiveness.

G. T. Darnell
Director
Corporate Quality & Reliability
Member, Board of Examiners
Malcolm Baldrige National
Quality Award 1991 & 1992
General Motors Corp.
Detroit

WESTINGHOUSE NEVER SOUGHT ADDITIONAL CREDIT

The following statement in your story "Westinghouse: More pain ahead" (Top of the News, Dec. 7) is inaccurate: "With his fate tied to the banks, Lego turned to them for help. He put out feelers, says a source close to the banks, asking if they could spring for another billion or \$3 billion. The 49 banks, led by Chemical Banking Corp., turned him down."

Despite what your "source" believes, no time did Westinghouse contemplate or have a need to expand its \$6 billion line of credit. No request to ex-



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Gentleman Jack

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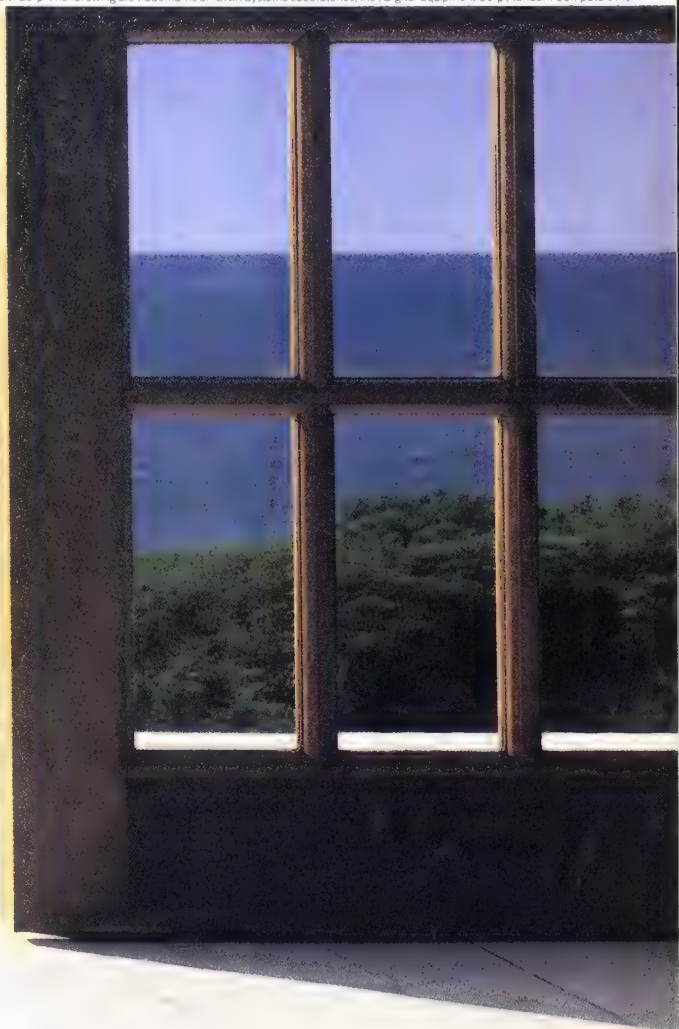


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Al D'Amico



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Leaders Report

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Warren H. Hollinshead
Executive Vice-President, CFO
Westinghouse Electric Corp.
Pittsburgh

EFFECTIVE INCENTIVE: REWARD COMPANIES THAT CREATE JOBS

Regarding "How tax incentives could trim the jobless rate" (Economic Outlook, Nov. 23), high experience-based employment taxes are significant disincentives to hire workers, especially temporary and marginal workers. Companies cannot take the risk of giving a marginal worker a chance, because if a worker turns out to be unsuitable and has to be fired or laid off, the unemployment tax is a harsh penalty.

The federal and state governments require the company to make absolutely correct decisions about offering employment to workers and about future economic conditions. It places harsh penalties on those who don't.

A better job policy would be to reward companies for creating jobs—even temporary ones—and for offering jobs to marginal workers, even if some of these workers turn out to be inadequate.

Colin H. Hershey
Planning Dynamics Inc.
Pittsburgh

THOSE 'FACTS' ABOUT THE COST OF SERVICES ARE FALLACIES

Alan Blinder's explanation of "Why the cost of services is soaring" (Economic Viewpoint, Nov. 16) makes some assertions that appear plausible on the surface, but for which there is little basis.

First, his "fact" that the price of goods and services reflect the costs of producing them. If that were really true, tuition at Princeton should be the same as at the nearby junior college; dentists' charges would be greater than those of physicians; and a box of cereal would cost about as much as a loaf of bread. That none of the foregoing is true is at least as obvious as the "fact" Blinder states. How about some other disarmingly simple facts from economics—costs are set by the markets for inputs; prices are set by the markets for outputs. They

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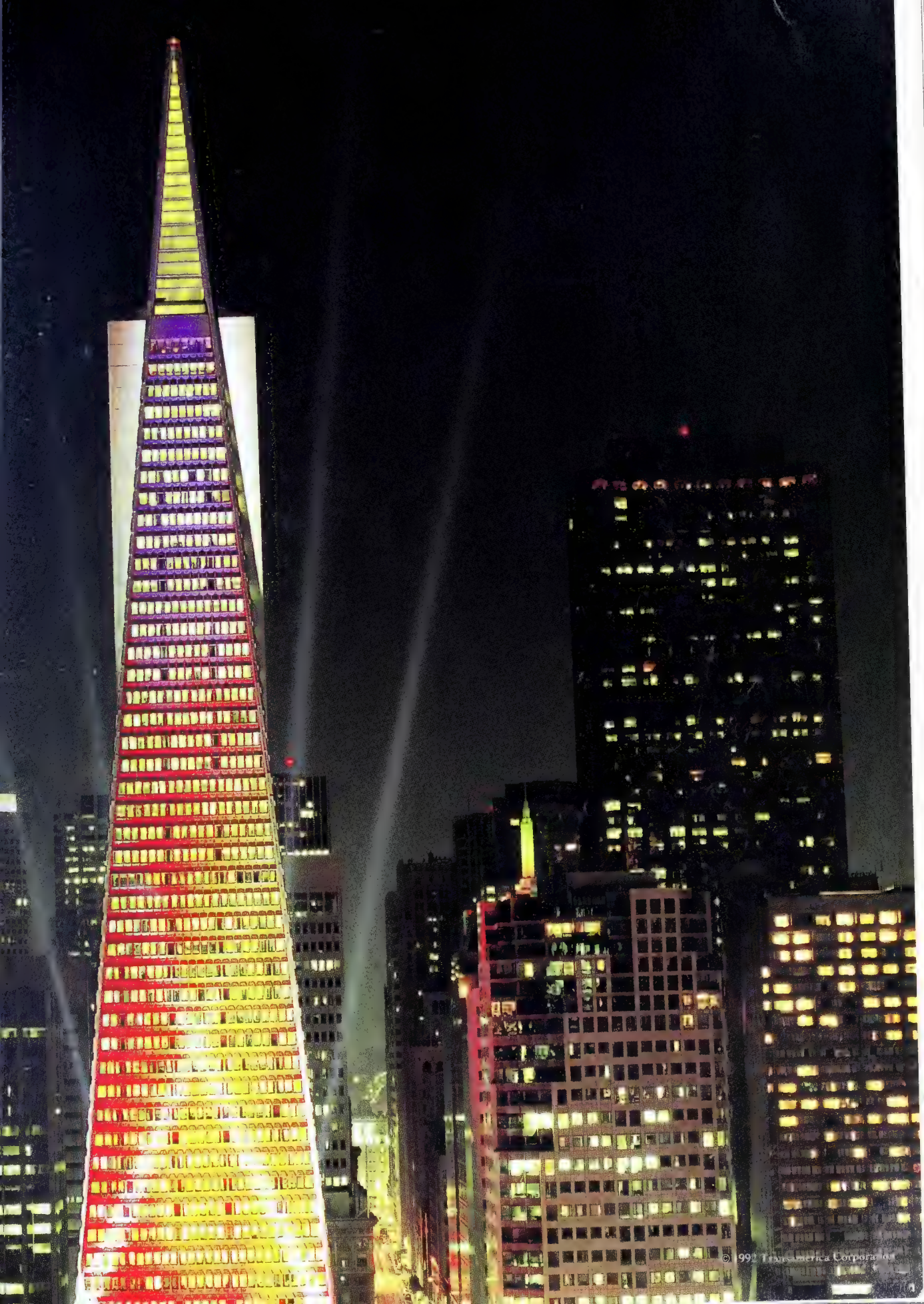
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Readers Report

explain why no one can make a business of turning gold into lead.

Second, Blinder measures manufacturing and service productivities with the same rubber ruler—units of output of medical services. Today's physical examination may take the same amount of time, but it is more likely to result in an accurate diagnosis and a reliable treatment. That should be counted as a productivity gain.

Michael J. Rot
West Des Moines, Iowa

FOR ONE LIFELONG MEMBER, THE GRAND OLD PARTY'S OVER

In terms of the Republican Party ("tattered GOP starts thinking about tomorrow," Cover Story, Nov. 16) and what can put it back together: Why bother? I was proud to belong to this party since the age of 4 (I'm 64), but now it is hopelessly discredited by its fanatical religious right. The two Pats, Robert and Buchanan, have left the stench of intolerance hanging over the party like a cloud of poison.

Norman K. Mars
Sault Ste. Marie, Michigan

WHY CAN'T B-SCHOOLS DO THEIR OWN TROUBLESHOOTING

Any business school that needs a consultant, free or otherwise ("Calling in the consultants—to the classroom," The Corporation, Nov. 16), to revamp its MBA program does not deserve to be on any list. What does the University of Texas teach in its MBA curriculum—basket weaving?

Robert D. Saddle
RMI Associate
Fruit Heights, Utah

CANADIANS' MESSAGE WAS CLEAR: 'WE'RE IN CHARGE'

Regarding your article "Northern Disorder" (International Business, Nov. 9): The Canadian people rejected the Charlottetown accord because they wanted to send a message to the politicians that the time has come for accountability. No longer do politicians have the freedom to make accords that satisfy their interests. Instead, the day are here when the electorate is the boss and their interest must be served.

A. Stavropoulos
Scarborough, Ontario

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ON TRACK WITH THE JAPANESE

By Patricia Gercik
Kodansha • 241pp • \$19.95

WORKING FOR A JAPANESE COMPANY

By Robert M. March
Kodansha • 247pp • \$19

YANKEE SAMURAI

By Dennis Laurie
HarperBusiness
376pp • \$23

9 TO 5, JAPANESE STYLE

Toward the end of my second year in Japan, before I knew what was what, I learned through the grapevine that the English school where I was teaching was going to close its doors at the end of the year. A few months later, I came in on my day off and discovered the manager packing up boxes. He grinned in apparent embarrassment, and I retreated, resenting that he had never told me of the closing. It wasn't until years later that I understood the truth: He had told me. Clearly, he knew that the grapevine had done its job. Anything more direct would have been humiliating for all involved.

I learned more from that experience, and others like it, than from all the books I've read on Japanese culture and its avoidance of confrontation. Until now. There's much to learn from the visceral case studies contained in *On Track with the Japanese: A Case-by-Case Approach to Building Successful Relationships* by Patricia Gercik. Gercik grew up in Japan and is managing director of Massachusetts Institute of Technology's Japan Program, which educates U.S. scientists, engineers, and industrial managers about Japan and helps them communicate and negotiate with the Japanese. Gercik presents her information through 23 case studies covering a wide range of situations.

Many previous books on dealing with the Japanese have discussed the importance of trust, long-term relationships, and the importance of the group over the individual. Through her vignettes, Gercik shows all that—and more. One thing that comes through most strongly in *On Track* is the emotional and psychological effort involved in dealing, sometimes unsuccessfully, with a foreign culture.

This book is not for those with only a casual interest in better business ties with Japan. Gercik assumes her readers are serious enough about developing

bonds with Japanese concerns to be willing to meet them on their own cultural turf. These vignettes, based on actual incidents but with individual and company names changed, are often sobering—especially for readers hoping to find shortcuts. Consider the tale of a U.S. scientist eager to participate fully in the research at a Japanese laboratory where he has been invited to work. After being repeatedly left out of the loop, he realizes that he must first demonstrate his willingness to subordinate his interests to those of the group. So he mops the lab floor for several weeks—and at last is invited to join the experiment.

Admittedly, a few of Gercik's anec-

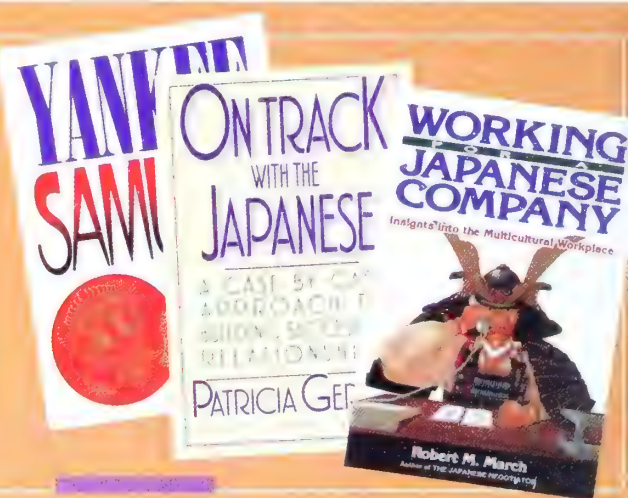
jured in a car accident while on vacation must negotiate insurance payment from an uncooperative manager in the powerful personnel department.

One of the strongest anecdotes involves a U.S. high-tech supplier who wants to renege on a contract with Japanese customer without either closing off future business prospects or calling in the lawyers. As Gercik tells it, several months after raising the issue, the American once again presents his reasons for wanting out of the contract, then listens while the Japanese customer states how serious an offense breaking a commitment is. "The room was silent," Dave shifted his position in his chair slightly and hung his head. He concentrated on imitating the pained expression he'd witnessed in Japanese counterparts when they were presented with situations of unresolvable conflict, sudden change of plans, or an inability to right a wrong. Now, with his head lowered, his brow creased, and his legs pressed against the side of the chair, Dave revealed through his posture [the company's] acceptance of its responsibility for the problem." The impasse is broken, and a compromise is reached.

Only occasionally does Gercik lapse into the sort of babble about cultural differences that makes most "how to work in Japan" books so dead dull. But then, however, her vivid anecdotes help let the reader experience the substance behind that babble. *On Track*, blissfully free of pontification, is a more enjoyable read than almost anything else in the genre.

Working for a Japanese Company: Insights into the Multicultural Workplace, which presents a starker picture of how bad things can be, is a valuable adjunct to Gercik's book. If you seek Australian consultant Robert M. March's blather about Japan's "foreign

What's it like
to be an American
working for the
Japanese? Here are
three different takes



dotes seem a little too neat. Japanese go-betweens and mentors, always willing to aid an American and always with a network of contacts at the ready, pop up frequently. Rarely does the American worker need the approval of what, when I was a member of Tokyo's foreign press, we called a "walking nontariff barrier"—an individual who sees no reason to open Japan's markets.

For the most part, however, Gercik's case studies ring true. In one, a U.S. consultant needs to maintain goodwill while making it clear that it's time for the Japanese—always avid information gatherers—to start paying for what began as free presentations intended to spark their interest. In another, a U.S. employee of a Japanese company, in-

complex" and similar topics in the three chapters, you'll find the balance of his book to be a slow-going but actively comprehensive rundown of the difficulties and trade-offs encountered in working for the Japanese in Japan elsewhere.

March's interviews are extensive, but they involve only a handful of non-Japanese who have worked for Japanese companies. He makes up for that somewhat through generous use of other sources and research. While Gereik shows how to get things done, March focuses on the reasons—communications breakdowns, lack of trust, conflicting expectations—that things often don't get done. For *Yankee Samurai: American Managers Speak Out About What It's Like to Work for Japanese Companies in the U.S.*, Dennis Laurie of the Ucker Graduate Management Center, Claremont, Calif., has interviewed 250 Americans working for Japanese companies in Southern California. His aim, he says, is to emulate Studs Terkel and let these managers tell the story in their own words.

But Laurie doesn't deliver. Close to half of this overwrought, underwhelming book is a florid account of Japan's growing economic influence in the U.S. Early on, he is infatuated with Japan and believes the U.S. has much to learn from the Japanese. Interspersed with this long-winded commentary are his subjects' comments on their experience, which range from the mundane to the insightful.

Unfortunately, Laurie rarely follows up on their provocative observations. He discovers, for instance, that while Japanese employees are inculcated with their company's mission statement, almost none of the Americans even know what it is. But he blithely chalks this up to poor communication, ignoring the broader implications—that Japanese managers believe U.S. workers are not trustworthy and not so central to operations as to need to understand the company's overriding goals. While Gereik's book includes a chapter on an American who has to cope with deliberate exclusion from the group, Laurie does not even seem to understand that such a thing might happen.

In the end, *Yankee Samurai* and *Working for the Japanese* seem rather like official memos from top management. *On Track with the Japanese* is more like richly detailed gossip passed through the office grapevine. And as I learned so many years ago, it's through the grapevine that you usually get the truth.

BY JAMES B. TREECE

Detroit-based Senior Correspondent Treece, who specializes in manufacturing, studied and worked in Japan for 10 years.



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TAKE A WALK ON THE SUPPLY SIDE, BILL

BY PAUL CRAIG ROBERTS



Clinton has a chance to realign the political landscape—if he sticks to an agenda of smaller government. But if he listens to the tax-and-spend crowd, he'll be swallowed up by special interests

With the rest of the world engaged in downsizing government, will Bill Clinton be led in the opposite direction by the coterie of liberals who persist in their belief that government has the answers? If so, the U.S. is in for another costly but cleansing lesson on the failure of government.

President-elect Clinton claims to be a "new Democrat" who has discarded the tax-and-spend philosophy of his party, and some of his supporters and advisers believe him. In contrast, special-interest groups see him as their agent for renewed plunder of business and the successful. If he compromises and pleases both sides, there is sure to be a lot of wheel-spinning.

Both groups are represented on the transition team, and in the interest of consensus, are touting what they call an "innovative" policy combining the "best thinking of liberals and conservatives." It looks good on paper as long as we neglect how it would work in practice.

For example, the new Democrats would like to spur investment with supply-side incentives. Sensitive to the budget deficit, they have conceived a narrowly drawn investment-tax credit and reduction in the capital-gains tax. The old Democrats, however, want to achieve "redistributive justice" by raising tax rates on the rich.

These disparate goals cannot be achieved within the same tax system. It is pointless to cut the tax rate on investment income with incentives and then take the incentives away with higher marginal income-tax rates. The policies neutralize each other.

GOODBYE, JOBS. The main effect would be capital gains for holders of municipal bonds, as the rich seeking nontaxable income bid up muni prices. Some middle-class people would pay lower income taxes—but not because of "tax justice." The withdrawal of investment from taxable activities would reduce the job opportunities and lower the incomes of wage and salary earners. The real gainers would be municipalities, which could issue bonds at lower interest rates and, thus, load up their communities with more debt.

Clinton cannot paper over his advisers' differences by adopting policies from both camps. He must choose. In America, redistribution means only one thing: Those who produce income are pillaged in order to reward the special interests that live off the federal budget. If organized interest groups dominate Clinton's policy, the government's budget will grow in relation to the private economy. If the new Democrats prevail, the economy will grow faster than the government.

Generally, the new Democrats recognize the

futility of government programs. Indeed, it is otherwise impossible to reconcile massive education, social-welfare, and income-support budgets with public schools no one wants to attend, public housing no one wants to live in, and what some argue is a rise in poverty and homelessness.

In the contest for Clinton's ear, the policy-oriented new Democrats will find themselves at a clear disadvantage. Marshaling facts and evidence, they are acting in the best interest of the country—for which there is no organized constituency. For the old Democrats, any failures of the programs are probably irrelevant. What counts are the institutionalized interests dependent on the programs, including the plaintiff's bar. The old Democrats can counter the policy wonks' new ideas with lobbying.

MORE LOOTING. A compromise would leave both factions frustrated. It would be better for the country for Clinton to go with one or the other. If he aligns himself with the new Democrats, he can build an alliance with Republicans or appeal directly to the people, as Ronald Reagan did, leaving the special interests isolated. If Clinton were to remake the political landscape in this way, a movement would arise for repealing Presidential term limits—at least for him.

Should Clinton choose to align himself with the old Democrats, he will preside over one more round of government looting of the economy. One more wave of odious and insupportable regulations to appease greedy lawyers with seven-figure incomes, one more bundle of public-infrastructure investments to reline the pockets of politicians, one more package of mandated benefits to please the unions and enforcement bureaucrats, and one last burst of big-government activism that would add to a cleansing experience. It would purge even "good government" types of any remaining confidence in government.

We can avoid this costly experience. Thanks to George Bush's fumble, Clinton has the opportunity to steal the supply-side domestic agenda—just as Richard Nixon filched the Democrats' foreign policy of détente with the Soviet Union and China. Bush was deflected from a pro-growth policy by accusations that he favored business and the rich, just as the Democrats could not court the Reds because they were perceived as soft on communism.

If Clinton grabs the supply-side agenda, he can preempt Jack Kemp's likely Presidential bid in 1996 and realign American politics. His other choice is to implement the big-government liberalism that will ensure Kemp's election.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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Economic Trends

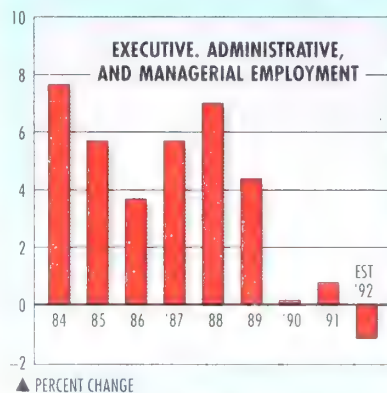
BY GENE KORETZ

WILL DOWNSIZING STYMIE CLINTON'S JOB-CREATING PLANS?

Though hiring will inevitably accelerate as the economy picks up steam, it will remain painfully subdued for some time to come—even if the Clinton Administration adds the job-creating stimuli of an investment tax credit and an infrastructure rebuilding program. That's the view of economist Stephen S. Roach of Morgan Stanley & Co.

"Blue-collar workers and back-office white-collar workers should do better," he says, "but the new class of workers who have borne the brunt of the job

NO SIGN OF RECOVERY IN MANAGEMENT JOBS



squeeze, executive and managerial workers, are likely to remain under the gun for at least another year or two."

Roach notes that the wave of corporate restructuring shows little sign of abating. Moreover, his calculations indicate that "the impact of this managerial flattening has been staggering."

In the U.S., some 13.5 million workers in private industry are classified as executives, administrators, and managers, and most are employed in the service sector—the focus of intensive restructuring in recent years. The upshot is that managerial jobs, which surged at a 5.6% annual rate from 1984 through 1989 (chart), have shown no net growth at all since then—eliminating about 2.25 million jobs that would have been created if the earlier growth trend had been maintained.

All of this constitutes a major challenge to future government efforts to reduce labor-market distress. The managerial victims of downsizing, notes Roach, typically are well-educated, high-

ly paid workers, whose skills are not easily transferable into the manufacturing and construction industries that are likely to benefit from tax credits or infrastructure rebuilding. And their ranks are being swollen by sharp cutbacks in defense industries, where 25% of the work force consists of managers, engineers, and technical workers.

The result, says Roach, is that both economic growth, which is highly responsive to the demand generated by high-paying jobs, and employment growth are likely to remain restrained until corporate restructuring has run its course. Indeed, the initial results of an American Management Assn. survey of 1,700 companies in early December indicates "little if any improvement in the bleak job outlook for middle managers through the first half of next year."

In sum, says Roach, "we will ultimately have a more productive economy, but there is no instant gratification in this tough world of structural change."

HOW CHILE BUSTED OUT OF THE GROWTH BASEMENT

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The secret of Chile's success: widespread economic reforms initiated under the Pinochet dictatorship and continued after the transition to democracy in 1990. The strategy has included privatization of government enterprises, deregulation, tariff and tax reductions, and a stress on export expansion. Perhaps most important, Chile privatized its social security pension funds, enabling the nation to finance 90% of its soaring investment (about 20% of GDP in 1992) from its own savings pool.

Chile's economic policymakers successfully reduced inflation from nearly 19% in 1991 to about 13% today. At the same time, unemployment has dipped to 5% and foreign investment has surged. Indeed, the government is currently trying to slow growth to 6% next year to keep the economy from overheating.

With exports up from \$3.8 billion in 1985 to \$9.6 billion today, Chile has expanded its export base far beyond copper to include fruit, fish, wine, and other products, and it now counts Japan as its largest customer. And if a U.S.-Chilean free-trade agreement is negotiated in the wake of the North American treaty, as President-elect Clinton has prom-

ised, the Chileans expect their export-led strategy to pay even bigger dividends the years ahead.

With Alexandra Huneus in Santiago

THE RECOVERY GOES LEGIT: IT'S GETTING AN OFFICIAL BIRTHDAY

On Dec. 21, the National Bureau of Economic Research will deliver Christmas present to President-elect Clinton and the American people. That day on which the NBER's business cycle dating committee, the group that officially designates the precise beginning of recessions and recoveries, will hold a conference call among its seven members to name the exact month in which the past recession, which began in July, 1990, finally expired and the recovery began.

With the economy expanding for six consecutive quarters and registering 2.8% growth so far in 1992, such a move may seem anticlimactic. But the atypical pattern of the recent recovery—particularly its weak trajectory and the dearth of employment growth—has led some observers to speculate that the economy had not yet definitively embarked upon a sustainable expansionary path.

Many economists believe March, 1991 is a good bet to be named as the trough of the last recession, though it could be a month or two later, according to Geoffrey H. Moore, a member of the business-cycle dating group. For most observers, however, the exact date of the recession's end is less significant than the fact that the nation's economic growth appears confident that the upturn is finally securely on track.

AN INVESTMENT TAX CREDIT WON'T BE A QUICK FIX

Though an investment tax credit would bolster capital spending and raise productivity over the long run, economists at Goldman, Sachs & Co. think its immediate impact on economic growth would be disappointingly small. They estimate that restoring the credit to 10% would boost real equipment spending by only 2% and even less than that if the credit applied only to incremental investment above a certain level. Further, because imports account for 50% of capital goods outlays (other than transportation), they predict that such a credit would inevitably worsen the nation's trade performance.

CONSUMERS ARE ON A BINGE NOW— BUT WATCH OUT FOR THE MORNING AFTER

The U.S. economy is riding high on a crest of better-looking data. The main reason: Consumers are on a tear. A buying binge at yearend is depleting inventories and boosting factory production. All the while, inflation remains tame as a kitten.

But there's a hitch. Household spending is racing well ahead of income. Consumers are liable to end up with a hangover after New Year's, and that could hurt economic growth in the first half of 1993.

That's what happened in early 1992. Real consumer spending shot up in the first quarter at a 5.1% annual rate, but it went flat in the second quarter. The result: Growth in real gross domestic product dipped from 2.9% to a sour 1.5%. A similar pattern may be developing now.



The latest data from retailers are impressive. Sales rose 0.4% in November. But more startling, the Commerce Dept. revised October's data up sharply, to a 1.9% jump, from the 0.9% gain previously reported.

The October and November gains indicate that retailers are easily having their healthiest holiday season since 1988. Receipts in October and November were

up 7.3% from the same two months last year—and December's results are still to come.

Measured quarter to quarter and adjusted for inflation, the final three months of 1992 could be the best for retailers since the explosive first quarter of 1992. That's when real retail sales surged at an annual rate of 0.3%. Even if December sales are flat, store volume is on track to post another 10% advance this quarter (chart).

SHOPPERS ARE IN A BUOYANT MOOD

That means consumers are giving fourth-quarter real GDP a sizable boost. A jump in retail sales at that rate implies a gain in overall consumer spending of about 5%

at an annual rate. And that's two-thirds of GDP.

Because of the solid showing from holiday shoppers, December sales will likely show a gain, despite the storm that ravaged much of the Northeast at midmonth. One clue is that early December sales of domestically made cars stood at a respectable annual rate of 6.5 million, and light truck sales came in at a solid 4.8 million.

In addition, the bounce in consumer confidence in November apparently continued in December. The preliminary reading of the University of Michigan's index of

consumer sentiment rose to 91.4 in December, after jumping to 85.3 in November from 73.3 in October. This measure of consumer optimism now stands at the highest level since April, 1990—before the recession began.

But there is a Grinch lurking in the outlook for early 1993. One of the ways this expansion is different from those past is the increasing importance of income and the diminishing role of debt. Household spending cannot stray from the growth trend of income for very long.

There's the problem. Real aftertax income will probably rise at less than a 3.5% annual rate in the fourth quarter. That follows a slim 0.4% in the third quarter, when buying raced ahead at a 3.7% clip. This split between spending and income growth suggests that consumers may find themselves short of cash in the first quarter.

Households are raiding their already-low savings to finance purchases. Savings as a percentage of aftertax income had dipped to 4.5% in the third quarter, and it apparently is falling dangerously lower in the fourth quarter.

Spending could take another hit in early 1993, when workers who saw a cut last year in the tax withheld from their pay now discover that they face a reduced refund or—even worse—that they owe income taxes.

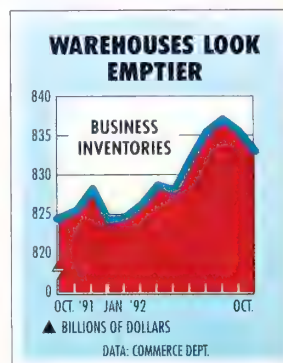
And the surge in credit-card use for holiday shopping means that plastic-toting consumers will have to pay off those bills in 1993. All this isn't about to do the expansion in, but it is likely to weigh on growth in early 1993.

AS SHOPS STOCK UP, JOBS MAY GROW, TOO

What could offset higher tax bills and skimpy savings, of course, is faster job and income growth. The downtrend in initial unemployment claims is good news, because it suggests that the wave of layoffs is ebbing.

Also, hiring and output might be benefiting from a mini-inventory cycle, much like the one that occurred in the first half of 1992. After rising for most of this year, inventories held by manufacturers, wholesalers, and retailers fell 0.2% in September and 0.3% in October (chart). Stock levels in October shrank in all three sectors, drawn down in part by stronger consumer demand.

In fact, stockpiles are extremely thin relative to demand. The ratio of inventories to sales dropped in October to 1.49—the lowest level in nearly four years. The upshot:

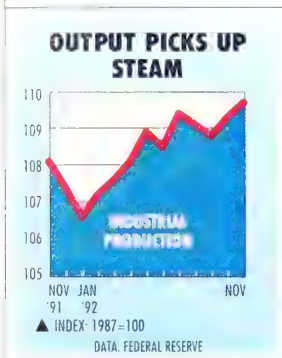


Business Outlook

Businesses apparently need to replenish some inventories, and that is boosting jobs and output.

That was the case in November. Industrial production in the nation's factories, utilities, and mines advanced 0.4% in the month following a 0.5% gain in October (chart). Industry also used more of its production capacity. Operating rates rose to 78.9%, from 78.7% in October.

The gains in manufacturing alone looked even better. Factory output jumped 0.6% in October followed by a 0.5% gain in November. That's a turnaround from back-to-back declines in both August and September.



The rebound has been broad. Output of consumer goods rose 0.3% in November after a 0.6% increase in October, and production of construction supplies picked up as well. Output of materials, which accounts for nearly 40% of industrial production, was up 0.5% in November.

But the real output leader is business equipment, especially computers. Production of capital goods increased 0.6% in November after jumping 1.1% in October. Output of office and computing equipment soared 1.6% in both months, and it is up a hefty 7.1% from a year ago.

The problem is that this surge is the result of a price war that is cutting into computer-industry profits. However, for the whole economy, the gains imply stronger capital spending, as companies strive to improve productivity. The favorable dynamics of the inventory cycle suggest that more output gains are on the way.

But the industrial sector won't get much help from homebuilding. Housing starts increased by a small 1.5% in November, to an annual rate of 1.24 million. October homebuilding was revised up to show a 0.2% gain, instead of the 1.1% drop originally reported.

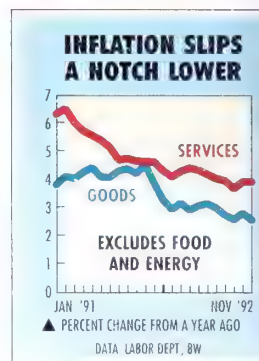
Still, these are piddling gains, compared with the much stronger growth posted earlier in the housing recovery. It's not that the housing upturn is in any danger, but the big gains fueled especially by lower mortgage rates have run their course. From now on, the path of housing will follow more closely that of the overall economy.

STOPPING PRICES IN THEIR TRACKS

As this expansion continues to unfold, clearly the best news continues to come from the price indexes. That was true once again in November. Producer prices for finished goods actually fell 0.2% in the month, pulled down by drops in the prices of both food and energy.

But even excluding those two items, prices of finished goods rose only a scant 0.1% in November. During the past year, this core rate of producer-price inflation stood at only 2%, the lowest in more than seven years.

Prices are equally well-behaved at the retail level. The consumer price index rose only 0.2% in November, or 0.3% excluding food and energy. The downtrend, which started two years ago, continues to include both goods and services (chart). CPI inflation will end 1992 at about 3%. And excluding food and energy, the core rate will come in at about 3.5%—the lowest rate for any calendar year in two decades.



Inflation should continue to slow in 1993, as gains in productivity hold down unit labor costs. Indeed, inflation is just one of the brighter spots in the most promising outlook for the economy in five years (page 62). But because of only modest job growth and coming tax bills, the New Year may get off to a slow start, since consumers are likely to be tapped out after their spending spree at the end of 1992.

THE WEEK AHEAD

FEDERAL BUDGET

Monday, Dec. 14

The U.S. Treasury Dept. will probably report a budget deficit of about \$40 billion for November, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. The government posted a \$48.9 billion deficit in October and a \$44.7 billion spending gap in November, 1991.

CAPITAL SPENDING

Tuesday, Dec. 22, 9 a.m.

The Commerce Dept. will report the results of its autumn survey of businesses' spending plans for new plant and equipment in 1993. Companies will probably raise their capital budgets by a healthy

7% next year, a bit better than the 4.7% expected to have been added to spending in 1992. However, as in 1992, almost all of the increase will go for equipment, mostly to improve productivity. Construction will continue to decline. Plant and equipment spending fell by 0.8% in 1991.

DURABLE GOODS ORDERS

Wednesday, Dec. 23, 8:30 a.m.

November orders for durable goods probably rose by 0.8%, says the MMS survey. That's suggested by the increase in durable-goods output last month. New orders increased by 4.1% in October. But that large gain just helped slow the drawdown in unfilled orders, which slipped another 0.1% in October. A gain

in new orders may finally cause an increase in the backlog for the first time in more than a year.

PERSONAL INCOME

Wednesday, Dec. 23, 10 a.m.

The MMS economists project that personal income increased by 0.4% in November. Healthy gains in wages and salaries were offset by the absence of far subsidies and bonuses to auto workers, which helped to boost income by 1% in October. Consumer spending in November probably rose 0.5%. Buying increased by 0.7% in October, but the sharp upward revision to retail sales for the month suggests that total consumer demand in October will be refueled much higher as well.

RICOH SHATTERS THE BARRIER BETWEEN PERFORMANCE AND ECONOMY



Ricoh rewrites the rules for touch screen technology. Introducing two new high volume copying systems. The FT8880 and the FT8780. Each uniquely versatile. Both surprisingly affordable.

Ricoh's new high volume, touch screen copiers are so easy to use that they make your entire company more productive.

And quick. 80 copies per minute. A remarkable 5,050 sheet capacity lets you run far bigger jobs and just walk away. Three paper sources make it simple to make transparencies, insert slip sheets *and* add covers. And finish the job with your choice of three stapling options. All programmed instantly at the touch of a screen.



RICOH FT8780

RICOH FT8880

But the real breakthrough of the new Ricoh touch screen copiers is their price. Ricoh offers both the FT8880 and the FT8780 for far less than you probably paid for the old high volume machine you're using now.

So call us for a demonstration at **1-800-63-RICOH ext. 1397**. The new Ricoh touch screen. Look into it.

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THE FTC VS. MICROSOFT

THE SOFTWARE GIANT MAY BE FORCED TO CHANGE

Bill Clinton's standard stump speech promised to improve U.S. competitiveness by lending a hand to industry—particularly the country's high-technology players. But as he takes office, Clinton may find his Administration confronted with a plan to sharply alter how the nation's most successful software company does business.

BUSINESS WEEK has learned that Federal Trade Commission investigators have completed their 30-month probe into the business practices at Microsoft Corp. Their conclusion: The software giant, led by Chairman William H. Gates III, has engaged in anticompetitive behavior. Now, FTC staffers are preparing a wide range of recommendations on how to sanction the software titan—everything from splitting the company into pieces, to erecting a "Chinese wall" between divisions, to altering the way Microsoft sells its software to computer makers.

CHOKESOLD. Any action the FTC takes is bound to be controversial, given Microsoft's importance to America's efforts to compete in high technology. "Everybody here understands how important this industry is to us," says a senior FTC official. "We need to fix this thing without killing the goose that laid the golden egg."

Microsoft denies that it has done anything wrong. But it won't say much more. "We're continuing to respect the nonpublic nature of this investigation phase of the FTC process, and we're continuing to cooperate," says William H. Neukom, Microsoft's vice-president for law and corporate affairs. "We don't want to participate in speculation on what the commission might or might not be considering."

In the end, the FTC's Bureau of Com-

petition, which investigates antitrust complaints, zeroed in on the hardball strategy Microsoft has used to win its 95% share of the market in operating systems for Intel-based personal computers. In a 250-page report filed to the FTC's five commissioners in early December, investigators found that Microsoft has maintained its market dominance with overly aggressive licensing arrangements, and that the company has unfairly used the stranglehold to gain an edge in development of such software applications as word-processing programs and spreadsheets.

And that's just the first of several sets of reports on the way to the FTC's commissioners. Other divisions, including its Bureau of Economics and the Office of the General Counsel, are expected by yearend to weigh in with their own recommendations on how the FTC should proceed. The ultimate decision to go ahead rests with the commissioners.

If they vote to go forward, they may move quickly. Typically, FTC antitrust charges are heard by an administrative law judge, who decides after a trial whether a company has violated the law. Next, the commissioners review the ruling, then set sanctions. But agency staffers want the FTC to seek a federal court injunction barring Microsoft from what they consider abusive practices. Such a court order would force the company immediately to change how it does business while the case winds its way through the administrative proceedings. And that might take years. Events could take another turn: Microsoft could convince the FTC to drop the matter, or it could work out a consent decree with the commission.

At the heart of the FTC investigation is

An FTC report, BW has learned, contains charges of unfair competition. Some staffers are even pushing for a breakup



the way Microsoft sells its operating system, MS-DOS. The company offers PC makers a variety of ways to buy the software, but the one that has caught the FTC's eye is a license that grants discounts of up to 60% to computer makers who pay for a copy of DOS for every PC they ship—whether or not the license comes with the program. Many computer makers opt for this arrangement, which Microsoft calls "per processor" licensing, because of the huge discounts. But investigators believe that it dissuades PC makers from buying competing software, since they already are paying for DOS.

'CLASSIC SMOOTHIES.' Ironically, Microsoft may be stepping up the pressure on PC makers just as the FTC wraps up its probe. BW has learned that for its next version of DOS, called 6.0, due out in March, some customers say Microsoft is attempting to redefine "per processor" to require computer manufacturers not only to pay for a copy of DOS but also to include it on every PC they sell. Industry executives believe the plan is Microsoft's way of thwarting piracy while keeping rival IBM's OS/2 software at bay. "They're not just negotiating a pricing

GATES IN HIS HOME
OFFICE: HIS RIVALS
ARE GANGING UP

year ended June 30, the Redmond (Wash.) software developer posted earnings of \$708 million, a 53% jump over the previous year, on \$2.76 billion in revenues, up 50%. "They are the Energizer Bunny on steroids," says Roger McNamee, a partner in Integral Capital Partners, a Palo Alto (Calif.) technology investment partnership. "They keep going and going and going."

BIG GREEN? Business for Microsoft's rivals, meanwhile, has been far bleaker. Borland International Inc. announced on Dec. 9 that it would lay off 15% of its work force and take a charge of up to \$35 million this quarter. Lotus Development Corp., meanwhile, has watched its share of the spreadsheet market decline from 66% in 1990 to 54% in 1991, as a result primarily of competition from Microsoft. "Microsoft dominates so much of the landscape," says Software Publishing Corp. Chief Executive Fred Gibbons, whose company posted meager 1992 earnings of \$526,000 after an \$18.1 million loss in 1991. "It reminds me of IBM in the '60s and '70s—Big Blue. Now it's Big

LONELY
AT THE
TOP



It and
by Berkeley Breathed



structure but reworking the playing field to make it even more restrictive," complains a PC executive. Microsoft says it has no such plan in the works.

Microsoft's troubles may not end with the FTC. A spokesman for Britain's Office of Fair Trading says the agency is taking an "informal look" at the company. If the FTC moves against Microsoft, the British review is expected to turn into a full-blown investigation. The British probe follows Microsoft's November decision to offer a similar per-processor licensing arrangement to local computer makers. Microsoft Ltd. says the offer ultimately will save money for its customers. Nonetheless, says Labor Party MP Nigel Griffiths, Britain's answer to Ralph Nader, the company "is like an old-fashioned monopolist. I'm afraid we're dealing with classic smoothies."

Nor is that all. If the FTC balks at taking strong steps against the software giant, Microsoft's rivals may take the company to court. Software industry executives say Novell Inc., the No. 1 maker of networking software, has talked with Borland, Lotus Development, and WordPerfect about sharing the costs of such a suit. So far, the idea is still in the "informal" talks stage, the executive says.

Microsoft's rivals say they have good reason to seek relief in their efforts to compete. Microsoft, long the juggernaut of the industry, is one of the few major players posting big profits. In its fiscal

He may be America's richest man, but not all is well with Bill Gates right now. The Federal Trade Commission may tell him to break up Microsoft. Rivals are eyeing an antitrust suit. The Brits are beefing about how MS/DOS is sold. Even a wicked cartoonist, Berkeley Breathed, sees the bachelor tycoon as fair game

Green—Microsoft."

There may be one big difference, however. The government dropped its broad antitrust case against IBM, filed during the waning days of the Johnson Administration, after 14 years of wrangling. More likely this time, the feds will take a rapier to Microsoft, forcing it to make changes to specific practices it considers abusive. FTC staffers may be gung-ho, but if Microsoft's rivals want a legal attack that will cripple Microsoft, they may have to mount it themselves.

By Mark Lewyn in Washington and Kathy Rebello in San Francisco, with Paula Dwyer in London



SO BLUE: IBM STOCK HIT A 10-YEAR LOW AFTER IT ANNOUNCED PLANS TO CUT 25,000 WORKERS

DOES IBM GET IT NOW?

Finally, it may be weaning itself from the fading mainframe business

The performance might have rated better reviews if it hadn't seemed so darned familiar. There was a stern John F. Akers telling Wall Street analysts and reporters of a plan to "redefine the IBM Company" so that it could finally come to terms with the problems that have gripped the computer giant during most of his seven-year tenure. The plan: shed 25,000 employees, cut \$1 billion from product development budgets, cut \$1 billion from administrative expenses, and take a \$6 billion charge against 1992 fourth-quarter earnings to cover the terminations and asset sales.

Unfortunately, just a year earlier, Chairman Akers had announced a similarly drastic program to finally turn Big Blue around. The idea was to break the

company into smaller units. It was, Akers said at the time, a "fundamental redefinition of the company." Wall Street bought into the promise, and by last summer, IBM's stock had risen as high as 110. Weeks later, things were turning sour again. IBM unveiled new cuts and a \$3.3 billion third-quarter write-down. This time around, investors all but hissed at Akers' Dec. 15 presentation. That day, the stock plunged to a 10-year low of 56. The next day, it sank below 52.

SACRED COW. Yet to those who listened closely to Akers' anguished comments, there was the glimmer of a truly new IBM. For once, it seemed, the chairman was publicly confronting the company's biggest problem: the looming end of the

mainframe era. Indeed, Akers at last was taking the ax to IBM's most sacred cow. Most of the cuts he announced aimed at mainframe-related divisions.

There's good reason for that. Mainframe revenues, Akers admits, will be down about 10% this year as recession-ravaged customers delay purchases and IBM fights a vicious price war with Japanese suppliers. And long term, there's no prospect for a rebound in sales of the "big iron" that still contributes 50% of IBM's revenues and perhaps 60% of its profit. How fast will the business contract? Akers isn't saying, but James Cassell, an former IBM mainframe executive and now a consultant at the Gartman Group, predicts that by 1996 IBM likely will see \$18 billion in annual revenue from mainframes vanish.

To cope, Akers wants to reinvent IBM as a lean, mean, microcomputer-making machine—very much like those small guys who have been stealing his business. His goal is to change the IBM model so that its hardware costs, manufacturing plants, and prices are in line with the low-margin economics of microprocessors.

GOOD VISION. While he pushes IBM into high-growth software and professional services markets, Akers will be betting much of the company's future on computers built around the high-performance microchip family that now powers its RS/6000 engineering workstations. Everything larger than a personal computer, it seems, will use RS/6000-type chips—workstations, AIX 400 minicomputers, mainframes, even supercomputers. To help spread development costs and risk, IBM has licensed Motorola Inc. to build the processors. To attract software developers to the design, Apple Computer Inc. and Grubbs Bull of France get to use the chips in their computers, too.

The new IBM strategy seems to be patterned, at least in part, on companies such as Sun Microsystems Inc. Sun jumped into the computer big leagues in the 1980s by focusing on designing

IBM'S HUGE, TROUBLED CORE, AND...

PERSONAL SYSTEMS

Workstations, microcomputer software
\$2.5 billion

APPLICATION BUSINESS SYSTEMS

Minicomputers
\$4.6 billion

NETWORKING SYSTEMS

Telecommunications, computer networks
\$5.2 billion

ENTERPRISE SYSTEMS

Mainframes, mainframe software
\$14.0 billion

TECHNOLOGY PRODUCTS

Chips, chip packaging
\$0.5 billion

APPLICATION SOLUTIONS

Software, consulting services
\$2.1 billion

SOURCE: COMPTON REPORTS, COMPTON & CO.

...LIKELY SPIN-OFFS

IBM PC CO.

Personal computers
\$9.0 billion

ADSTAR

Disk drives, related software
\$11.9 billion

PENNANT SYSTEMS

Printers, related software
\$2.1 billion

mily of microprocessors called Spare. enlisted chipmakers to build them and vited all kinds of computer makers to e them. Sun saw what IBM didn't: hat counts in a microprocessor-based dustry is continuously improving per- mance, continuously declining costs. Sun has the vision IBM should have had ars ago," says Morgan Stanley anal- st Steven Milunovich.

Even if Akers finally has come to ips with the future, can he make it ork? Analysts and former IBMers en't so sure. In six years of overhauls id shakeups, they say, the basic IBM ulture hasn't changed. "IBMers are pay- g lip service to the idea of change, but ere's a real dichotomy in the work ree," says Joseph M. Adams, director of marketing communications for Soft- are Artistry Inc., a maker of IBM soft- are in Indianapolis. Most of the adven- rous employees left in the first rounds 'voluntary buyouts years ago, he says. The ones that are left are by definition st risk-takers."

Akers may not be the right person to ad the charge, say some former IBM nployees. "How can a guy who has een inside IBM for 30 years change a ulture and an environment when all [he ows]... is the IBM way," asks G. lenn Henry, a former IBM Fellow and nior vice-president at PC maker Dell mputer Corp. "If you want to make g changes, go outside and get a guy ho knows what it is to compete with ie outside world." Says Robert Djurdje- c, president of Annex Research: "IBM a ship out of control."

But at the Dec. 15 meeting, Akers smissed speculation that he would step own before his expected retirement ate at the end of 1994. He says, point- ily, that the IBM board supports him ily.

USING MONEY. If he wants to go out a ero, Akers doesn't have long to remake M into an organization that can survive elling low-margin, commodity-like ma- chines. As the recent success of IBM PC o.'s low-budget ValuePoint personal mputers shows, the company is capa- ble of building popular machines in even e most cutthroat markets. It just asn't figured out how to make money n the job: The PC Co. is now losing oney, Akers acknowledges. Once it's rofitable, Akers wants to spin off the mpany and other units (table).

With microprocessor-based machines p and down the line, IBM will have to arn fast how to turn a profit on those ower gross margins. "We're closing the ost gap between PCs and the high end," sists President Jack D. Kuehler. But fter six years of promised turnarounds, M also must fill a credibility gap.

By John W. Verity in New York, with ephanie Anderson Forest in Dallas

CARVING UP A VERY FAT GOOSE

After a record year, Wall Street's bonuses will be early—and juicy

There's nothing like a little prosperi- ty to liven up the season. At the Museum of Modern Art's Henri Matisse exhibit, PaineWebber CEO Don- ald B. Marron was host at a candlelit party for clients and employees. Down- town, in the art-filled offices of Donald- son, Lufkin & Jenrette Securities Corp., another lavish fête toasted a profit-filled year. "We had a very good 1992," says John S. Chalsty, Donaldson's CEO, "and we intend to pay people accordingly."

So do most others on Wall Street. Sec- urities firms posted an estimated pre- tax profit of \$6.7 billion, besting the \$5.8 billion record set in 1991. Now, it's time to spread the wealth around. With a

rake in at least \$15 million—equal to his take last year.

Merrill, which made a record \$735 mil- lion in the first three quarters of 1992, is also within striking distance of the \$1 billion milestone. "Merrill had a fabulous year," says Alan Johnson of GKR Ameri- cas, a recruiting firm. Its biggest bonus- es are expected to go to fixed-income and equity-derivatives traders, along with equity sales staffers.

The top brass won't pull down all the big money. It was a very good year for mortgage-backed securities (MBS), so such traders will see some of the big- gest checks. Bear, Stearns & Co. paid its MBS head, John C. Sites Jr., \$12 million and its trader Warren J. Spector \$12 million. MBS trader Howard Rubin col- lected \$7 million, says one headhunter. Yes, that's the same Rubin whom Mer- rill fired in 1987 after he lost \$377 mil- lion in a single day.

RICH KID. General Electric Co.'s Kidder Peabody unit rewarded its top MBS trad- ers as well. It should: Kidder's MBS divi- sion is the market-share leader on the Street. Kidder's MBS chief, Michael W. Vranos, pulled in about \$5 million in 1992, say headhunters and competitors. The 31-year-old whiz kid has used some of his riches to buy a waterfront cottage in Sweden, which should please the new Mrs. Vranos, a Swedish model. Even so, some Kidder traders were disappointed that bonuses weren't even larger.

Wall Street lavishly rewarded re- search analysts who helped snag plum assignments. Gary Goldstein, president of the Whitney Group, a search firm, says that compensation packages of \$600,000 to \$800,000 were common. Other Street sources say that bank analysts Thomas H. Hanley of First Boston Corp. and J. Richard Fredericks of Montgom- ery Securities garnered well over \$1 million.

That kind of money is always wel- come. Less welcome are Clinton's tax- the-rich proposals, such as his plan to remove the corporate tax deduction for employee income above \$1 million. Al- though the process is costly and disrupt- ive, GKR America's Johnson says sever- al Wall Street firms are considering becoming partnerships, which don't pay corporate income taxes. Until then, New York's party planners should get a boost from 1992's hastily paid bonuses.

By Leah Nathans Spiro in New York

WALL STREET'S PROFITS AND PEOPLE

	Estimated 1992 net income Millions	1992 head count
DEAN WITTER REYNOLDS	\$190	15,866
GOLDMAN SACHS	1,000	6,733
MERRILL LYNCH	948	39,900
MORGAN STANLEY	388	7,172
PAINEWEBBER	225	13,500
PRUDENTIAL SECURITIES	150	17,000
SALOMON	525	8,735
SHEARSON LEHMAN	150	31,003

DATA: LIPPER ANALYTICAL, SECURITIES INDUSTRY ASSN., BW

heavy emphasis on performance, the big- gest dollars will be paid to traders and investment bankers who pulled in equity underwriting business. "Our sense is that bonuses will be up 10% to 15%, with vast discrepancies between the people who bring in the business and those who process it," says Joan Zimmerman of executive recruiter G.Z. Stephens. And since President-elect Clinton may push through a surtax on millionaires, many firms will pay those big bucks before midnight on Dec. 31.

SMOOTH MOVE. Goldman, Sachs & Co. and Merrill Lynch & Co. are likely to hand out some of the biggest checks. Goldman earned \$1 billion in the year ended November, 1991, and a further \$581 million in the six months ended last May. Analysts believe it could chalk up another \$1 billion year. That should ease Robert E. Rubin's transition to the pub- lic sector. The Clinton economic honcho and former Goldman co-chairman should

WHATEVER YOU CALL IT, INDUSTRIAL POLICY IS ON THE WAY

Clinton's team will also play an aggressive role in managing trade

The words "industrial policy" were a taunt, an insult, and a surefire room-emptier during the Bush Administration. Any Republicans infected with the notion of "picking winners and losers" could count on a quick trip to the White House woodshed. Administration officials attending think-tank seminars on the heretical idea sat in the back, avoided signing in, handed out no business cards.

You guys can come out now. Whether you call it industrial policy, technology

intends to drive the high priests of Adam Smith and David Ricardo straight out of the temple. Tyson calls herself a "cautious activist" when it comes to managed trade. But in her latest book, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, she approvingly quotes Abraham Lincoln on the need for change: "The dogmas of the quiet past are inadequate to the stormy present." Her preferred method of dealing with trading nations that restrict or bar U.S. exports: aggressive

Several different perspectives, in fact. Economic theorist Reich, a lecturer at Harvard University's John F. Kennedy School of Government, doesn't mind if a foreign corporation such as Siemens or Toshiba Corp. wants to dominate in, say, cutting-edge electronics—as long as it invests in America. Rather than worry about which country's flag a company is flying, Reich says, the U.S. should turn out skilled, creative, and productive workers. That way, companies will pay up for the privilege of investing in the U.S. and hiring Americans. "A nation's role," he writes, "is to improve its citizens' standard of living by enhancing the value of what they contribute to the world economy." So Reich proposes a policy wonk's field of dreams: Educate the workers, and the jobs will come.

There's plenty of potential for conflict between Reich's one-world view of competitiveness—he calls it global citizen-



REICH STRESSES EDUCATING WORKERS

REICH AND TYSON: PET ISSUES

INVESTING IN A SKILLED WORK FORCE

The U.S. must be able to offer "stateless" multinational corporations a well-educated, highly trained labor pool. Otherwise, multinationals will simply continue to seek out America's low-wage competitors

LEVELING THE PLAYING FIELD

The U.S. shouldn't be afraid to help out its high-tech industries, which often face protected and subsidized foreign competition. Support might include tax credits for research or direct funding for research and production

MANAGING TRADE

The U.S. should demand reciprocal lowering of trade barriers, negotiating the details—even down to specific market share—when necessary

DATA BY



TYSON TARGETS TRADE BARRIERS

policy, competitiveness policy, or managed trade, it's suddenly fashionable. In fact, Bill Clinton is so fond of the notion that government can steer economic development that he has appointed two champions of industrial policy to top jobs—Laura D'Andrea Tyson to head the Council of Economic Advisers and Robert B. Reich as Labor Secretary. To drive the point home, virtually every idea ever suggested to help one or another U.S. industry compete was trotted out during Clinton's two-day policy rave in Little Rock (box). The speeches there horrified former Reagan economic adviser William Niskanen, who called them "special-interest pleadings." Democrats called it all The Future.

No one could accuse Clinton of being too cautious with his second round of economic appointments. University of California at Berkeley economist Tyson

retaliation against a wide array of protectionist practices.

It's all well and good to profess free trade. That, says Tyson, remains the ideal. But if European and Asian competitors are picking winners and losers, that means they are targeting our high-tech industries for failure. "We must not be hoodwinked by the soothing notion that the fate of America's high-technology industries will be determined by market forces," she writes. "Instead, they will be manipulated by the trade, regulatory, and industrial policies of our trading partners."

NEW PERSPECTIVES. Even some Republicans welcome this economic revisionism. "We've had a singular point of view for 12 years now," John D. Ong, chief executive of B. F. Goodrich Co., said in Little Rock. "At least people are seeing things from a different perspective."

ship—and Tyson's economic nationalism. "Clinton's following the Democratic paradigm: Rub two aides together to get some sparks," says political scientist Stephen Hess of the Brookings Institution.

The job of harmonizing conflicting approaches within the Administration likely will fall to investment banker Robert E. Rubin, named to head Clinton's new National Economic Council. Once consensus is reached, much of the work of transforming it into policy and law will fall to Democratic Party Chairman Ronald H. Brown, Clinton's nominee as Commerce Secretary.

President Bush was content to give the undemanding Commerce job to two amiable fund-raisers, Robert A. Moe and Barbara H. Franklin. Clinton promises that Brown's Commerce Department "will play a more visible and powerful role," especially in the areas of technol-

development and export promotion. But the President-elect won't rely on his lobbying skills.

Those very skills threaten to make Clinton's most controversial appointment. He has lobbied for Japanese companies and for the government of former Haitian dictator Jean-Claude Baby Doc Duvalier. "If we are trying

to develop a tough new trade policy, if we are going to get rid of influence-peddling, is this the guy we want?" asks Charles Lewis, executive director of the Center for Public Integrity, a nonpartisan watchdog group.

There's a danger, of course, in trying to fit so many economic activists under one tent. Certainly, as Clinton demonstrated at the Little Rock summit, he

enjoys the role of refereeing a proper intellectual sparring match. Once Clinton assumes office and the stakes become higher, however, he just may find his top aides pulling their gloves off. By that time, Clinton will have to be ready to stop asking questions and start giving orders.

By Paul Magnusson in Washington, with Douglas Harbrecht in Little Rock

CLINTON IS ONE HECK OF A PROFESSOR, BUT CAN HE SELL?

Maybe it was inevitable that Bill Clinton, a real '60s guy, would revive an artifact of that tumultuous era. The first-ever Presidential Teach-in on the Economy, Clinton's two-day Little Rock talkathon with 329 economists, politicians, and business and labor leaders, has taught us much about the President-elect's governing style. If Ronald Reagan was the Great Communicator, Bill Clinton is going to be the Great Educator.

Business leaders new to the Arkansas crowd found the event mesmerizing. Part professor, part talk-show host, Clinton used the skills honed over a lifetime in politics to turn an unwieldy schmooze session into a display of his intellect and charm. Even the hardest-core Republicans among the guests were wowed. "I was no Clinton supporter," says Robert Cizik, CEO of Houston's Cooper Industries Inc. and chairman of the National Association of Manufacturers. "But I had to be impressed with the man's knowledge of what it will take to make this country globally competitive."

DOMINATING. That's music to the ears of Clinton, who's determined to convince skeptics that he is indeed a new breed of Democrat. "The nation better get used to this," says Apple Computer Inc.'s John Sculley, one of the Silicon Valley supporters crucial to Clinton's victory. "This is going to be a different President from any we've seen in a long time."

Indeed, it's impossible to imagine any recent President sitting through two days of speeches, ranging from the visionary to the whiny and self-serving. Clinton not only endured, he dominated, somehow managing to stay attentive throughout.

But the show in Little Rock was more than a display of the President as Superwonk. It was a demonstration of

key elements of the Clinton method.

First and foremost is his stubborn insistence on sticking with his plan. It got Clinton elected, and he's not about to abandon it now. The conference spent most of its time on familiar litanies of the economic damage wreaked by 12 years of Republican rule. That's what Clinton wanted to focus on; he wasn't looking for revelations or even policy suggestions. Insiders say that he has firmly decided on the program he advocated during the campaign: an investment tax credit, a capital-gains tax



HIS OWN BEST LOBBYIST: EVEN THE GOP'S HARD CORE WAS WOWED

cut, modest middle-class tax relief, and a \$20 billion-a-year boost in infrastructure spending. Clinton used the same strategy to select his economic team. Most key players are experienced insiders who can smooth the passage of his prepackaged program.

The summit also gave Clinton a chance to show off his grasp of policy details. His questions displayed an interest in—and knowledge of—the most arcane issues. His taste for the minutiae of governing, combined with his gift of gab, makes him his own best lobbyist. As governor, he enjoyed prowling the Arkansas statehouse during late-night sessions to cajole lawmakers. Expect him to do the same with Congress.

That's where his knack for selling comes into play. If you haven't noticed, Clinton loves to talk. He sees his ability to connect with—and charm—voters and legislators as essential to his style of retail politics. "What the American people will see is his ability to relate directly to others," says former Arkla Inc. executive James L. Rutherford III, a longtime friend. "That's the Arkansas in him."

Much of that talk will be conciliatory. Facing controversy, Clinton looks for the central element in the dispute

that everyone can agree on. During several heated summit discussions of the need for deeper entitlement cuts to reduce the deficit, Clinton repeatedly returned to the need for controlling health-care costs. "Let's don't get fixated on this entitlement stuff," he said at one point. "We're kidding ourselves if we don't do something about health care."

GRIDLOCK. And there's the rub. Clinton has gone a long way toward convincing American business that he indeed is a different kind of Democrat. With a Congress controlled by his own party and weary of gridlock, he has the potential for an extraordinarily productive Presidency.

But he takes over a nation that faces serious, ingrained problems. Attacking them will require him to make tough choices and build consensus where only bitter division now exists. Clinton has demonstrated intelligence and charm. Now, he has to show that he has the stomach for the great fights that great accomplishment will require. "Leadership and learning are indispensable to each other," Clinton's model, John F. Kennedy, said 29 years ago. But Clinton should also remember Kennedy's admonition. "It's not what I intend to offer the American people, but what I intend to ask of them."

By Douglas Harbrecht in Little Rock

SUDDENLY, HEALTH-CARE PLAYERS ARE READY TO TALK

And they're taking once heretical stands in hope of shaping reform

For ever so long, health-care reform has been just another term for gridlock. Hospitals, doctors, and insurers refused to consider any idea that would jeopardize their stake in the \$800 billion medical-care industry. But with President-elect Bill Clinton vowing to place health-care reform near the top of his agenda, industry lobbyists, jockeying for position in the debate, are accepting ideas that used to be anathema to them. "Groups are moving off long-held views," says Ellen Goldstein, health policy director of the Association of Private Pension & Welfare Plans. "This kind of change and chaos means there is opportunity."

Another name for opportunity is "managed competition," a concept that Clinton endorsed during the campaign. A consensus is building behind the broad notion that employers and individuals should band together into health-insurance-purchasing cooperatives. They, in turn, could force networks of hospitals and doctors to compete on price and quality. Trouble is, everyone has a different idea of what the details would look like. "If you talk with 50 different people, you get 50 different definitions," says Dr. Robert Graham, executive vice-president of the American Academy of Family Physicians.

STRANGE BEDFELLOWS. The inevitability of health-care reform is prompting lobbying groups to take once heretical stands in the hope of molding managed competition to their liking. On Dec. 15, for instance, an unusual coalition that included leaders of the National Federation of Independent Business (NFIB) and the National Governors' Assn. announced support for what amounts to a tax increase. They want their groups to endorse a proposal that would disallow deductions for employer health-care expenses beyond a basic benefits package. At the same time, they would tax workers who opt for more generous coverage. The Business Roundtable

is also considering such a position. Those who provide medical care have taken equally remarkable positions. The American Hospital Assn. supports managed-care networks that provide all of a patient's care at a fixed rate—a sharp departure from traditional fee-for-service medicine. Some doctor groups, in-

cluding family physicians, back national spending targets, despite their concern about health-care rationing and the prospect of reduced physician income. And the Health Insurance Assn., a group of mostly small and midsize insurance companies that has staunchly opposed any changes at the federal level, now wants to require individuals to buy coverage. "This gives the insurance industry a seat at the table," notes Stuart J. Brahm, lobbyist for insurer Principal Financial Group.

But a seat at the table will be just the start in the search for consensus. Consider the disputes within the business community. The National Leadership Coalition for Health Care Reform, a group that includes many large companies, thinks the system should include national spending targets and fixed payment rates for providers. Many of its members, such as Chrysler Corp., also would like to buy coverage for their workers through purchasing cooperatives. That way, companies with many older workers who tend to need more medical care, could get out of the health benefits business altogether.

BROKEN RANKS. But other business groups balk at such measures. Many members of the Washington Business Group on Health, another big-business lobby, believe that government-set rates for each physician service would eliminate price competition among managed-care networks. But the group is mulling other forms of cost controls, such as fixed payment to a network for each patient cared for. Also, many of these companies would prefer to buy coverage outside the purchasing cooperative, because they would have more control over their benefit plans.

Meanwhile, the NFIB, which represents small businesses, doesn't want to see its members required to provide employee health insurance with a package of basic benefits. "A standard benefits package could increase costs for some of our members," explains NFIB policy analyst Kelleen Jackson. That stance sets the NFIB against many big businesses, physicians, hospitals, and Clinton himself. Complicating matters, many large companies don't share the NFIB's new support for limiting tax breaks for medical expenses.

The insurance industry is similarly split. Small and midsize insurers worry that purchasing co-



BIG HEADACHES FOR LOBBYISTS

HEALTH INSURANCE ASSN. These mostly small insurers don't want to be passed over by huge co-ops that would buy coverage for individuals and businesses

AMERICAN HOSPITAL ASSN. For-profit hospitals want their managed-care networks to win federal certification

HEALTH INDUSTRY MANUFACTURERS ASSN. Makers of high-tech medical equipment worry that government spending ceilings would stifle innovation

AMERICAN MEDICAL ASSN. The doctors' group doesn't want Clinton to eliminate fee-for-service medicine

DATA BW

eratives would eliminate the need for additional insurance. But such large insurers as CIGNA Corp. like the idea because they see themselves as leading managed-care networks. "I think there's going to be a huge consolidation" among health-care providers and insurers, says CIGNA Executive Vice-President Robert O'Brien. "We are ready for fundamental change."

TOS

GM AND THE UAW ARE MAKING NICE

ut the buyout plan leaves many long-term problems still festering

Stephen P. Yokich was all smiles on Dec. 14, when he unveiled a sweetened early retirement deal for General Motors Corp.'s union workers. At a meeting in Dearborn, Mich., the United Auto Workers vice-president told union leaders that workers age 62 or older now can receive full pensions, plus \$3,000 toward a new GM vehicle. And the younger workers can bow out and start new careers without forfeiting pension benefits, as they had to do before. The arrangement is the first tangible sign of union-company cooperation aimed at reversing the auto maker's massive losses in North America. That's a dramatic turnaround from last summer, when a series of local strikes and threatened walkouts tied GM in knots. At the time, the move eased the immediate crisis, but it by no means eliminates the long-term issues that must be resolved when the UAW's auto industry contracts expire next September. The two sides still must find a way to accommodate new rounds of job cuts that many observers believe will be needed to make GM No. 1 auto maker competitive again. Says Yokich of GM's shrinkage: "You've got to be a realist about it."

ISSUES REMAIN. The goal of the early retirements, which GM and the UAW have been negotiating for months, is to help workers losing their jobs because of larger-than-anticipated cuts. Under the current contract, GM pledged \$3.35 billion to pay the wages of laid-off workers. But because of lagging auto sales and GM's plan to slash 54,000 blue-collar jobs by 1995, the funds ran down more quickly than expected. They're now down to \$1 billion and might have run out soon if nothing had been done. So the UAW agreed to tap \$450 million that hasn't been spent of a fund set aside under the contract for job training. The money will pay for the new early retirement programs, which some 10,000 workers

Nowhere else is the tension as great as among doctors. The American Medical Assn. wants to make clear to Clinton its unalterable opposition to spending targets and controls on physicians' fees. But some groups of specialists fear the consequences of that kind of intransigence. "It cuts them out of the discussion early on," says Graham.

No group in the health-care industry

can afford that. The players in the debate on health-care reform realize that being at the table is critical because the devil will be in the details of managed competition. And they realize that before the debate is over, they'll have to make a lot of bargains that until recently seemed positively unthinkable.

By Susan B. Garland in Washington, with Tim Smart in New Haven



UAW VICE-PRESIDENT YOKICH HAS BEEN BUSY EXPLAINING THE DEAL TO LOCAL UNION LEADERS

may accept between now and March.

This leaves plenty more work for the UAW. Analysts figure GM will lose \$4 billion in North America this year, which means GM President John F. Smith Jr. remains under pressure to cut costs further. Some analysts think he must close more plants and lay off more workers. They point primarily to the company's parts division, which is even less competitive with rivals than are its assembly plants. GM officials say they hope to sell or drop about 14% of the unit, which employs 68,000 UAW members. Most likely to go are components with little strategic competitive value, such as horns and axles. But "I don't know if GM can find any willing buyers," says Maryanne Keller, an analyst at Furman Selz Inc.

Absent a sale, GM might shut money-losing parts plants, which could throw thousands more UAW members out of work. That's why job security looms so large in next year's contract talks. The UAW will fight hard to keep the lucrative income-security provisions it won last time. But with GM struggling to fund desperately needed new products, the company argues that it can't afford another \$4 billion commitment.

The UAW also will resist GM's efforts to abolish a contract clause that calls for rehiring one laid-off worker for every

two who retire or leave for other reasons. In fact, GM's desire to do away with the requirement stretched out the talks over the new retirement program for weeks. But Yokich refused to budge, mostly because limiting attrition is one of the few levers the UAW has to slow GM's shrinkage.

Health-care costs are the other remaining point of contention. GM spent a staggering \$3.4 billion last year on employees' medical bills, or \$929 a car. In August, the company said it would slash benefits for white-collar workers. If the company can't wring similar concessions from hourly workers, it's certain to anger white-collar ones. But the UAW has seldom given in on health benefits, and union officials promise that they won't this time around.

Yokich and Smith clearly have decided to forge a marriage of convenience. They meet regularly and seem to have established a working relationship that the two sides lacked for the past two years. Smith plans to close GM's executive dining room as a goodwill gesture to workers. And he even has agreed to an unusual meeting with 300 UAW leaders early next year. Yet with all the tension, it's hard to see how Yokich can keep on smiling all the way until September.

By David Woodruff in Detroit

FOUND: A SUITOR WHO SUITS TINY ROWLAND

For a cash infusion, Lonrho's choosy chief picks an unknown

In his three autocratic decades at the helm of Lonrho PLC, Chief Executive Officer Roland W. "Tiny" Rowland never has failed to surprise. Lately, for instance, Rowland has listened politely to proposals for badly needed cash infusions for Lonrho from such powerful outfits as Malaysian resorts owner Genting and South African mining conglomerate Gencor Ltd. Then, out of the blue in early December, Rowland announced he instead would sell at least half of his 15% stake in Lonrho—and perhaps all of it—to a little-known German property developer named Hans Dieter Bock.

Rowland's decision to accept \$77 million from Bock, a 53-year-old lawyer and tax consultant, is supposed to ensure an orderly transition at the London-based conglomerate. "Believe me," Rowland, 75, wrote in a letter to shareholders, "it's only my age which occasions this."

It's true that Bock, who also agreed to pay an additional \$130 million in a new-share issue, could be running Lonrho by 1995. That year, Bock can exercise an option to buy the rest of Rowland's stake, which would give him control of 25% of the company. Yet with the deal, Rowland may be signaling a radical overhaul of the \$5.5 billion Lonrho. Bock is now likely to move onto the board and accelerate a sale of assets that in the past year has raised \$850 million.

Lonrho badly needs the money. The worldwide economic slowdown has hammered metals prices, hurting profits at the company's platinum and rhodium mines in South Africa. The recession also has cut into business at its Princess hotel chain and cut advertising in its British newspaper, *The Observer*. Even the drought in Africa hurts Lonrho, since it owns huge farms there. The result: Lonrho's earnings for 1992, ended Sept. 30, fell 61% to \$122 million.

The Frankfurt-based Bock is well aware of the problems. Bock has known Rowland for only a few months, but has been studying the company for years, his spokesman says. He was sold on the idea of investment in Lonrho by Rowland's stunning sale of a one-third inter-

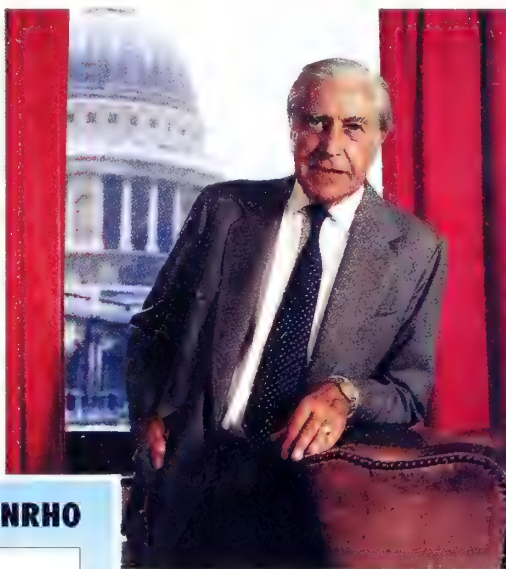
est in Lonrho's British hotel chain to the Libyan government last spring. That deal knocked down Lonrho's stock, convincing Bock that Lonrho was a trove of undervalued treasures.

To gain access to the riches, Bock had to win over Rowland. No easy job, that. In late 1988, Rowland scared off Asher B. Edelman, the U.S. corporate raider. The next year, Australian Alan Bond, who once held 20% of Lonrho, was sent packing. Recently, Rowland turned aside

up a company he built up over 30 years, says Michael Gatenby, vice-chairman of Charterhouse Bank Ltd., which structured the deal. Yet Bock, who declined an interview, may be hard-pressed to resist the challenge. He's no stranger to buying properties, largely through Frankfurt holding company, Advanced Management. Bock will finance the Lonrho deal via the Netherlands-based Laerstate, which he owns outright.

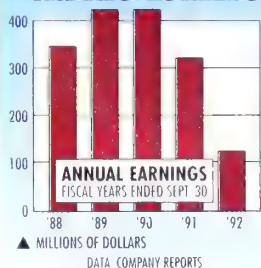
BAG MAN. But Bock bears none of the outward trappings of a tycoon. While Rowland loves to jet out in his Gulfstream to cut deals with heads of African states, Bock eschews the limelight and prefers commercial flights. At the London meeting to clinch the Lonrho deal, attendees say, Bock carried his papers in a plastic shopping bag.

The deal has stirred up big trouble among Lonrho's shareholders, who a-



ROWLAND AND BOCK: ONE IS FLASHY, THE OTHER ISN'T, BUT BOCK IS THE RIGHT AGE, HAS THE RIGHT EXPERIENCE, AND HIS MONEY ISN'T SOUTH AFRICAN OR CHINESE

FADING LONRHO



Genting and Gencor.

Now, Rowland has settled on Bock. Why? "He has brains, a proven business ability, and is the right age," says Paul Spicer, a Lonrho director. Besides, Rowland wanted

to ensure a European focus for Lonrho—which doomed the idea of a Genting or Gencor deal. "We had to ask whether we wanted to be owned by the Chinese or the South Africans," says Spicer. Bock's hotel experience also is valuable to Rowland. Bock owns 50% of the Kempinski hotel chain and has developed hotels throughout the world.

Those close to Rowland say the deal with Bock doesn't signal a quick dismantling of Lonrho. "He wouldn't turn over the reins to someone who would break

angry that Rowland is selling his shares to Bock at a 45% premium to its recent trading price. Since the announcement, shares have dropped 10%, to \$1.10. "Someone in a fiduciary capacity should not have struck this deal," says Jeffrey Rosenberger, managing director of Claver Capital Management Inc. in Rochester, N.Y. Another investor says he may try to recruit dissidents to force change at the company.

A shareholder uprising would leave Bock caught between angry investors and his patron, Rowland. Unless, of course, the mercurial Rowland sours on Bock. Still, the Rowland era at Lonrho looks to be drawing to a close. The question now: What surprises does the mysterious Bock have in store for Lonrho?

By Richard A. Melcher in London, with John Templeman in Bonn

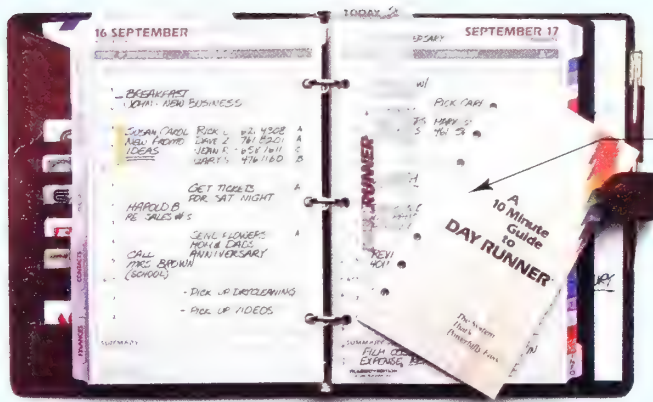
fig. A



SCIENTISTS
say people use a
mere 5% of their
mind's capacity.

(A Human Brain.)

fig. B



FORTUNATELY
for you, our sys-
tem is pretty much
of a no-brainer.

(A Human's Day Runner.)

IT'S THINGS LIKE OUR
TEN-MINUTE USER GUIDE,
AND JUST-PLAIN COMMON
SENSE PAGE LAYOUTS
WHICH MAKE DAY RUNNER
PERSONAL ORGANIZERS
THE EASIEST WAY TO GET
YOUR LIFE IN ORDER.
THERE'S NO THICK MANUAL
TO MASTER, OR BORING
SEMINARS TO ATTEND.
BECAUSE, HECK, WE FIG-
URE YOU'VE GOT ENOUGH
ON YOUR MIND AS IT IS.

DAY RUNNER
PERSONAL ORGANIZERS

Commentary/by Judith H. Dobrzynski

ACTIVIST BOARDS, YES. PANICKY BOARDS, NO

For denizens of America's corner offices, 1992 turned out to be a worrisome year. Confronted by poor financial results and angry shareholders, directors at several companies made quick work of ejecting the chief executive. General Motors, Digital Equipment, and American Express were the splashiest examples. As the troubles grew at IBM, Citicorp, and Westinghouse Electric, to name a few others, the media put those companies' CEOs on a "death watch," speculating about how long they would keep their jobs.

Great, right? Boards of directors finally are getting the message. They are waking up to their real duty, which is to watch out for the interests of shareholders, rather than those of their buddies, the CEOs.

RESTRAINTS. But wait a minute. There's reason to wonder if some directors are getting the message muddled. Are they, on occasion, pushing the panic button a bit too soon? Their behavior calls to mind Dorothy Parker's famous put-down of Katharine Hepburn, who, she said, "ran the whole gamut of emotions from A to B." Shouldn't directors have more in their repertoire than doing nothing or lowering the boom on the CEO?

The all-or-nothing behavior, in fact, represents board failure, not success. "If a board over time doesn't do the work that's necessary to understand the business, it has no other option but to change the CEO" when things go wrong, says New York attorney Martin Lipton. Yet the fear of such precipitous action by directors, over time, might damage U.S. competitiveness, simply because it could inhibit a CEO's willingness to chance risky ventures. "You kill the entrepreneurial spirit," Lipton argues. You may also foster a bunker mentality, destroying the willingness of CEOs to listen to disgruntled shareholders early on, lest the wrong be sent to others.

Be clear on one thing: The job of CEO isn't a tenured position. For too long, it has been the unfortunate re-

ality at most corporations. Boards have done too little to make executives accountable, and CEOs haven't had to worry much about their performance. As activist shareholders apply pressure to poor performers, however, the atmosphere is changing. But some directors appear to be overreacting.

One story says a lot about the supercharged environment. In November, representatives of the California Public Employees' Retirement System aired



their complaints to Westinghouse CEO Paul E. Lego. They also told Lego they wanted to meet with outside directors, including Frank C. Carlucci III, vice-chairman of Carlyle Group. Within days, Carlucci "offered, through an intermediary, to resign from the board," says Richard H. Koppes, CalPERS' general counsel. "Our request to meet him was interpreted as we were targeting him." CalPERS merely wanted to talk to Carlucci, who couldn't be reached for comment.

Directors shouldn't mount a boardroom coup every time shareholders start pressuring them

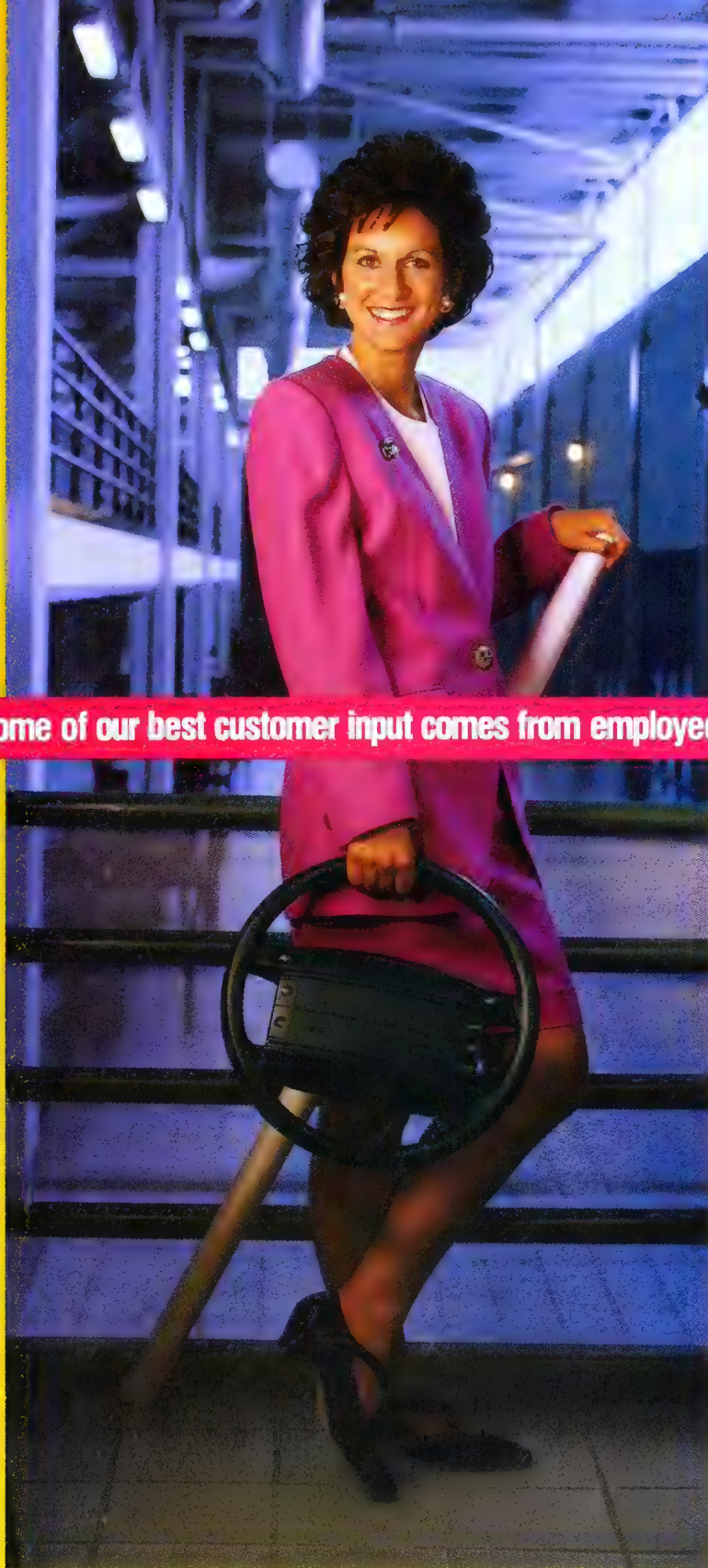
Such incidents would be laughable if they weren't so important. But there's a great deal of unhappiness with the way U.S. corporations are governed. There are also a lot of bad ideas for reforming the American system—such as attempting to adopt a Japanese or German model, where banks or partner corporations provide accountability. Neither offers the dynamism or capital-raising capabilities of the U.S. system. And neither protects the small shareholder.

Q&A TIME. The U.S. need not sacrifice these attributes, particularly since recent changes to the proxy process by the Securities & Exchange Commission have freed shareholders to take a more active role. But it's important that the ferment in Corporate America improve, not just change, how corporations are governed. Both logically and legally, directors are the key. Yet if every time they feel pressure from shareholders they—and the CEO—start to worry about a boardroom coup, the system is in trouble.

What shareholders and boards want to achieve is better long-term financial performance. To do that, directors must put in more time monitoring management—all the time, not just when there's trouble. This isn't micromanaging; it's knowing when to ask questions and what the right questions are.

Given the state of board-CEO dynamics, getting from here to there will take time. Directors can start by taking control of the nominating process, by demanding more information about business strategy and conditions, by naming a chairman distinct from the CEO or a lead outside director, by meeting with shareholders on occasion—in short, by guarding their independence.

Maybe the boards in the headlines tried, but failed, to change each corporation's course without changing the CEO. Maybe it was just too late for that. But directors at other companies shouldn't get the wrong message: Moving from feeble to ferocious in a single step isn't the way to go.



Susan Pacheco-Baker,
Ford Mechanical Engineer

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THE ROSE BOWL MAY HAVE TO PUNT TO THE PRIVATE SECTOR

Fading fast, the city-run stadium considers hiring a management firm

It's the bowl game that bills itself as the "Granddaddy of Them All." But on Jan. 1, when the Huskies of the University of Washington line up to take on the University of Michigan Wolverines in the 79th annual Rose Bowl, officials in Pasadena, Calif., could be nursing the grandmother of all headaches. Nestled in the foothills north of Los Angeles, the city-owned stadium is fast becoming a 101,000-seat white elephant.

Home to the only major bowl game without a corporate sponsor, the stadium has lost money in three of its last four years. It made a scant \$19,000 last year only by refinancing its debt, and this fiscal year it will make just a few dollars more by hosting the National Football League's Jan. 31 Super Bowl. But it's likely to be several years before the Rose Bowl gets another shot at pro football's championship game. Now, girding for competition from newer, spiffier stadiums around the country, the Pasadena City Council is contemplating hiring a management firm to run the storied football palace.

Although the track record of privately run stadiums is decidedly mixed, there would be no shortage of companies willing to take on one of America's best-known stadiums. "It helps a lot that the Rose Bowl has a very prestigious name," says a spokesman for SMG, a Philadelphia-based facility management group that has run the Los Angeles Memorial Coliseum & Sports Arena for the past five years. This year, the L.A. sports complex tripled its operating income, to \$3.5 million.

ROCK SHOCK. Some changes will have to be made before the Rose Bowl can post those kind of results. The stadium sorely needs a professional team as its anchor tenant. But the area's two NFL clubs, the Rams and the Raiders, already have deals elsewhere, though Raiders owner Al Davis might leave the Coliseum for the right price.

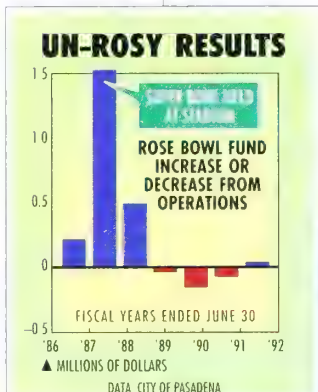
Civic attitudes will have to change, too. Bordered by affluent neighbors who abhor the traffic and public drinking

that accompany the bowl's major events, the stadium is limited by city ordinance to a mere 12 dates a year. Of those, five are University of California at Los Angeles football games that last year saddled the stadium with a loss of almost \$100,000 a game. By contrast, the Coliseum—15 miles away, in the inner city—hosted 32 major sporting events last year along with a raucous Cinco de Mayo festival, two concerts by rockers U2, and 11 other spectacles.

Pasadenans aren't eager to be known as a

um lost a total of \$280,000 over the three fiscal years ended June 30, 1991, after averaging annual operating profits of nearly \$1 million for the previous six years. Most of the profits came in the three years when the stadium hosted two Super Bowls and some 1984 Olympic events. In those fat years, the city spent as much as \$656,000 annually to maintain nearby Arroyo Park. This year, the park will get a mere \$7,380 from the Rose Bowl.

SEAT SACRIFICE. Things could get worse down the road without a new source of money, worries city council member William Thomson, who is leading the drive to bring in a private operator. The NFL required the Rose Bowl to build an \$11 million press box before awarding it Super Bowl XXVII. And, Thomson says, about \$50 million worth of improvements are on a "wish list," including a new lighting system, the widening of entry tunnels, and the replacing of aluminum benches with seats that have backs. To get the 1994 World Cup soccer finals



LAST JANUARY'S GAME: GENTEEL PASADENA PREFERS THE GRIDIRON OVER HEAVY METAL

host of rock bacchanals. A concert last October by heavy-duty rock bands Guns N' Roses and Metallica drew loud protests from many. "We want to preserve the quality of life in our neighborhood," says Cam Currier, vice-president of the local Linda Vista/Annandale Citizens Assn. And city council member Chris Holden worries that private managers might cut corners with affirmative action requirements and strike questionable deals with promoters. "Promoters don't like to deal under the scrutiny of the public eye," says Holden.

A member of the public scrutinizing the Rose Bowl's financial performance would have reason to wince. The stadium

the Rose Bowl agreed to widen its entrance zone, losing as many as 2,000 seats in the process.

In the end, the money that a state-of-the-art stadium can generate is likely to persuade Pasadenans to swallow their objections to private managers. The upcoming Super Bowl alone will spin off anywhere from \$150 million to \$180 million in revenues for the area, say local officials. The World Cup could do even better. To assure more big paydays in the future, Pasadena will have to put up with a little less gentility and a few more rowdy weekends at their local sports shrine.

By Becky Johnson in Pasadena

DITED BY HARRIS COLLINGWOOD

A FIRST-CLASS FIRST NIGHT

What does it cost to ring in the New Year in high style? Well, if you and your date want dinner, champagne, a dance band, or a floor show, and you're on a budget, try Moscow, not Paris or New York. Here's the cost per person of a ritzy New Year's bash in several of the world's major cities:

CHICAGO Four Seasons \$175	DALLAS The Mansion on Turtle Creek \$275
LONDON Orient Express \$400	LOS ANGELES Hotel Bel Air \$250
MOSCOW Metropol Hotel \$96	NEW YORK Rainbow Room \$375
PARIS Ritz \$500	SAN FRANCISCO Ritz Carlton \$175
TOKYO Imperial Hotel \$347	

BUSH'S RIGHT-HAND MAN GOES TO CHICAGO

Samuel Skinner is going home again. On Dec. 16, the former Bush Administration Transportation Secretary and White House chief of staff was named president of Chicago's Commonwealth Edison. Skinner, a Chicago native, used to head its Regional Transportation Authority.

Com Ed needs Skinner's regulatory expertise. The utility has failed to win rate increases to pay for three nuclear plants.

SCIENTIFIC-ATLANTA'S CHIEF TAKES A HIKE

'Tis the season for boardroom coups. Six weeks after being stripped of the chair-

man's title, Scientific-Atlanta Chief Executive William Johnson on Dec. 15 announced his resignation. Johnson isn't talking, but a spokesman for the cable-TV equipment maker says the board and Johnson disagreed on fundamental management issues.

Known as a demanding turnaround specialist, Johnson was first hired as an adviser to Scientific-Atlanta in 1986 and then named CEO in 1987. He gets high marks for coping with the slowdown in cable-system capital purchases in the early 1990s while pushing the company into HDTV and digital compression. But the company also suffered high executive turnover. Scientific-Atlanta Chairman James Napier will fill in for Johnson until a new CEO is found.

A RULING, FINALLY. A PRECEDENT? MAYBE

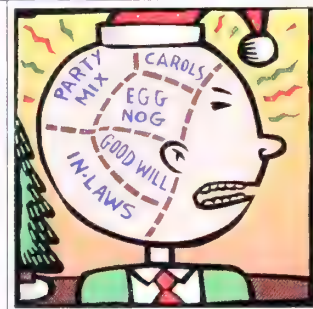
► Although the National Labor Relations Board's long-awaited ruling on labor-management work teams is likely to upset some employer groups, the decision is narrowly written and won't force most companies to abandon teams, board sources say. The case involves Electromation, an Elkhart (Ind.) electronics manufacturer, which in 1989 appointed worker-manager teams after notifying employees that there would be no pay hikes that year.

The NLRB ruled that Elec-

YULE BE SORRY

"Christmas again," writes poet John Berryman, "when you're supposed to be happiest." Those old enough to doubt Santa's existence know better. The holidays are really a time of excess that produces not happiness but blinding hangovers. The symptoms: clammy skin, dry mouth, jumpy stomach, and, worst of all, a pounding head.

In a timely release, the National Headache Foundation in Chicago explains your discomfort and offers a few palliatives. First, alcohol makes your blood vessels swell, hence your thudding head. Cotton mouth? Booze is a diuretic—it dehydrates you. To ease the pain, try eating some toast and honey after your next party. If you still wake up hurting in the morning, rehydrate. Choke down some bouillon to restore salts and minerals. Drink some coffee to help constrict those blood vessels. Or take the foundation's wisest advice: Don't drink. Yeah, right.



tromation violated the National Labor Relations Act. But NLRB sources say the ruling addresses only Electromation's actions, not teams in general. In the long run, though, the case may set a precedent that could give employees more say in determining team composition.

FORD BITES THE BULLET ON HEALTH BENEFITS

► Ford Motor isn't going to prolong the agony. On Dec. 16, the carmaker elected to take a one-time charge of \$7.5 billion for the year to cover new accounting rules for retiree health benefits. It could have spread the costs over 20

years. Ford also plans to cut 10,000 employees from its slumping European operations next year, resulting in an additional \$419 million write-off in the current quarter. Another big hit: an annual ongoing charge for retiree benefits, which this year amounts to \$440 million.

The two smaller charges will result in a net loss from operations for 1992, the company says. On the other hand, adopting a new accounting rule for income-tax accrual means there will be a \$685 million one-time improvement in Ford's net income.

PACTEL GIVES BIRTH

► Call it a Baby Baby Bell. On Dec. 11, Pacific Telesis Group, the phone holding company based in San Francisco, announced it would spin off its wireless holdings to shareholders. The new unit, with about \$1 billion in revenue, will include cellular and paging properties in Germany, Japan, the U.S., and elsewhere.

The biggest remaining asset of Pacific Telesis Group will be Pacific Bell, which provides local telephone service in California. The spin-off should come in about a year.

VIARETTE



No, Virginia, there is no Santa Claus. However, there is an uptick in the latest consumer confidence index.

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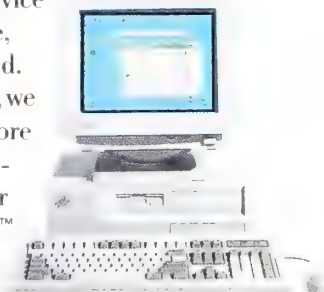
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BANK REFORM, HAH! WHY THE CHANCES ARE SO SLIM

Luis V. Gutierrez, a newly elected Democratic congressman from Chicago, is ecstatic about his seat on the House Committee on Banking, Finance & Urban Affairs. "It isn't the big word—banking—that attracted me," says Gutierrez. "If there was one thing that got me into politics, it was housing. Housing and consumer advocacy—we've done some great things for consumers in Illinois, like interest-rate caps."

Gutierrez' attitudes are widely shared on the Banking panel. And that could spell big trouble for banks—and for any Clinton Administration plans to reform the antiquated rules governing the financial-services industry.



KENNEDY

LIBERAL PANEL. Half of the 50 members will be new to Banking. Most of the 13 freshmen Democrats represent inner-city or heavily minority districts and show little interest in the thrift bailout, interstate branching, or other bank issues. Instead, they hope to revive housing programs—though the deficit will severely constrain new spending.

The banking committee, without doubt, is the most liberal panel in the House. Activist freshmen will

and mentors among such top-row Democrats as California's Maxine Waters and Massachusetts' Barney Frank. Another liberal hero, Representative Joseph P. Kennedy II (D-Mass.), will chair the consumer credit and insurance subcommittee, terrifying bankers who blame his 1989 amendments to the Home Mortgage Disclosure Act of 1975 for creating thousands of hours of annual paperwork.

The new committee is tailor-made for maverick Chairman Henry B. Gonzalez (D-Tex.) In the last Congress, Gonzalez warred with senior Democrats, who wanted to let banks sell insurance and securities. With most of those members gone, Gonzalez can block any expansionary bills from Representative Stephen L. Neal (D-N.C.), a moderate who will chair the financial institutions subcommittee, or the panel's Republicans.

Gonzalez may have problems with the new Administration. Bill Clinton sees overregulation of banks as one cause of the economy's lethargy, and bank groups sent to Little Rock a list of rules—most mandated by Congress—they would like to see repealed. "These are changes needed to get credit flowing to small business," argues Edward L. Yingling, chief lobbyist for the American Bankers Assn. But Gonzalez is unlikely to cooperate. The chairman, an aide says, "will look very hard at any attempt to roll back" social mandates. And he's likely to have his young committee backing him all the way.

By Mike McNamee

THE BIG BATTLE FOR THE BUDGET COMMITTEE

If Bill Clinton wants to get control of the federal deficit, he'll need strong leadership at the House Budget Committee. But the panel is now a battleground between Democratic liberals and moderates. The nomination of Leon E. Panetta (Calif.) as budget director opened up the panel's chairmanship. Contending for the post: Minnesota's Martin Olav Sabo, one of the most liberal members of the House, and John M. Spratt Jr. of South Carolina, a self-styled moderate.

The ideological cast of the Democratic Caucus favors Sabo in the January vote. He has served as chairman of the Democratic Study Group, has managed the members' baseball team, and has friends across the House's ideological spectrum. "I'm realistic enough to know that it's a tough race," concedes Spratt, who's lobbying his fellow members hard.

In the past, Democrats—including Panetta—have become more conservative after taking over the Budget panel. And Sabo says: "I feel great enthusiasm for the President-elect and his team. He's likely to get what he recommends." But with Sabo teamed with liberal Senate Budget Chairman James R. Sasser, Clinton's fiscal plans could face tough sledding.

By Richard S. Dunham

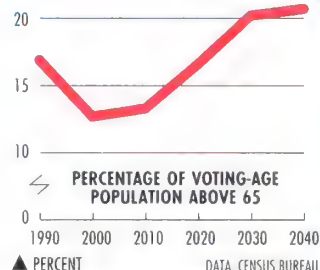
CAPITAL WRAPUP

EDUCATION

Because states run schools, the federal government can influence education only by setting a good example. But in at least one case of real concern to business—matching skills to the needs of the labor market—Washington gets failing marks. The government's U.S. Merchant Marine Academy at Kings Point, N.Y., keeps churning out graduates for nonexistent jobs in the shrinking U.S.-flag fleet. Graduates may fare better under the incoming Clinton Administration, which plans to make Kings Point a transportation academy, offering training in water, ground, and air shipping.

AGE WARP

Yes, the U.S. population is aging, but for the next few years the share of the elderly among voters will actually decline. Why? Because of the baby bust of the 1920s and '30s. That could create the chance to trim Social Security and Medicare costs. But politicians better act soon: Baby boomers start turning 65 in 2011.



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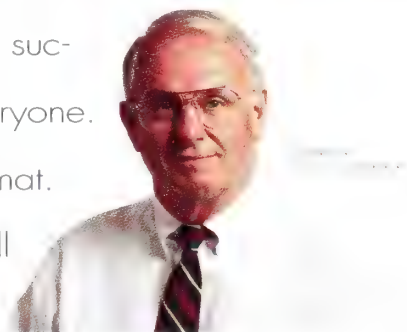
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THE WILD, WILD EAST

Murder, extortion, drugs—suddenly, China is awash in crime, and the West is jittery

During a routine business trip to the Chinese border city of Shenzhen on Aug. 16, 1991, Hong Kong citizen Chong Kwee-sung was seized by armed police. Even though they had no arrest warrant, they took Chong, 55, to Zhengzhou, in central China, where he has been held incommunicado in an unheated jail cell ever since. Authorities have refused to allow visits by Chong's attorney. Nor has Chong been formally charged.

Chong is neither a drug smuggler nor a dissident. He is an ordinary trader who is a victim of China's growing lawlessness. In this case, Chong works for a Hong Kong employer that had refused to pay for a shipment of bicycles from a Zhengzhou factory that failed to meet U.S. Customs Service safety standards. Zhengzhou police have said they would be willing to free Chong for \$500,000, cash. Appeals to Beijing for help from British diplomats and four U.S. senators have been fruitless. "He has simply been kidnapped and is being held for ransom," charges Michael R. Doran, Chong's Los Angeles attorney.

PANDORA'S BOX. Chong Kwee-sung's ordeal may be extreme. But it's part of a disturbing trend. China's headlong dash to "get rich" has unleashed a greed so pervasive that it's getting difficult to tell the lawmen from the profiteers. Armed Chinese maritime police are seizing the cargoes of foreign vessels off Hong Kong on the pretext that they may hold smuggled goods. Stolen luxury cars, which vanish from Hong Kong at the rate of 20 a day, are being traced to the Public Security Bureau across the border. Small traders complain their factories are being threatened



SHADOW ECONOMY The mainland's economic boom has unleashed a pervasive greed—and a raft of illicit activities, including barber shops that double as brothels

with closure unless they make payoffs.

Add to this a wave of violent crime that is spilling into Hong Kong, which this year has been rocked by gun battles between police and mainland gangs. In two incidents on Dec. 2, shootouts with a mainland gang and a local group armed with semi-automatic pistols, grenades, and AK-47 assault rifles smuggled from China left 3 suspects dead and 11 police and 3 bystanders injured. For Hong Kong, it was the worst day of criminal violence on record.

These are shocking scenes to outsiders who associate China's free-market reforms with Avon ladies and party cadres in crisp business suits. Indeed, with the economy growing 12% nationwide, and at a breathtaking 15% clip in Guangdong province, China is poised to become the first communist country to make a peaceful transition to a market-driven economy.

But now, Beijing is faced with the Pandora's box of social problems from prosti-

tution to drug dealing set loose by rapid growth—in a country where the rule of law is weak at best. "With the pressure to create 106 million new jobs this decade, China can't go back on its reforms," says Kenneth G. Lieberthal of the University of Michigan's Center for Chinese Studies. "But focusing exclusively on maximum growth is creating enormous problems."

Indeed, some of the measures most responsible for China's boom are part of the problem. The devolution of power from Beijing has allowed cities in the Pearl River Delta such as Guangzhou and Dongguan to cut deals with foreign investors, sometimes in defiance of central planners. In the process, enormous power flows to local party officials and even law-enforcement agencies that are evolving into money-making fiefdoms. "There's no supervision from the top and no supervision from the bottom," contends Thomas Chan, coordinator of Hong Kong Polytechnic's Chin-

business Center. "The result is capitalism in its worst form."

China's disorder is of growing concern internationally. In Hong Kong, already in major row with Beijing over Governor Chris Patten's proposals for greater democracy, it raises jitters over the rule of law after 1997. Veteran China traders say the rising costs of graft and highway robbery are starting to make them look elsewhere to obtain goods. And a reluctance at the local level to crack down on abuses raises questions about whether Beijing can live up to international agreements.

The optimistic view is that China is going through a difficult transition and that any problems will be sorted out in time. The Chinese are making tremendous progress in developing legislation, professionalizing the judiciary, and training lawyers," maintains Hong Kong-based attorney David C. Buxbaum. The leadership has formed task forces to fight corruption and counterfeiting and has launched a crusade against everything from drug smuggling to the \$20 million slave trade in women and children that has led to massive arrests and hundreds of public executions.

LOSING FAITH. But despite the grisly shows of force, authorities are fighting an uphill battle. Even some of the most seasoned China traders are losing faith. One U.S. executive who has been buying garments on the mainland for 15 years says corruption "is accelerating at an alarming pace. My worry is how far this is going to go." Last year, one of his trucks was stopped by uniformed men on a highway in Guangdong, and the driver was forced to unload cargo at gunpoint. Another time, the highwaymen drove off with the truck as well. Now, on some stretches in Guangdong and Fujian provinces, the company only transports goods during the day.

It gets worse. Three months ago, Chinese customs authorities showed up at the Guangdong luggage factory of a Hong Kong trading company. Claiming the factory illegally sold imported raw materials, the agents seized the entire stock of leather and levied a \$300,000 fine. The company denies the charge. But an appeal could take months, and if the company doesn't get its leather soon, it will miss crucial orders from U.S. retailers.

Not long ago, says an executive of the company, the factory's Chinese staff was visited by a "retired customs official" driving a European sports car. He offered a deal: Give him 60% of the money in cash, and he could get the leather released in two weeks. Five other Hong Kong companies were also shaken down, according to the executive. "As far as I know, this sort of thing never happened in China until this year," he says.

Defenders say only business-



HEAVY HAND Police harass a youth in Guangdong province, where a massive population of "floating" migrants threatens the social order

people ignorant of the system get in such jams. "You need connections, but there is a rule of law," says Buxbaum. "I've handled hundreds of commercial cases, and in almost all of them I've been able to get reasonable justice." But he concedes there is a "hierarchy when it comes to who can avoid getting squeezed." Foreigners, especially those connected to high-profile joint ventures, often shell out for dinners, small gifts, and overseas trips. But rarely are they hit up for money, partly because most refuse to pay and have embassies to back them up. Ethnic Chinese executives who have solid *guanxi*, or connections, with ranking cadres also are immune.

Hong Kong small businesspeople such as Chong Kwee-sung, who lack connections, are most vulnerable. Regarded as Chinese nationals, they lack the civil rights granted to foreigners. The same goes for Taiwanese investors. So experts advise Taiwanese to invest through third countries with diplomatic ties with Beijing.

Crime experts in Hong Kong view many of their counterparts across the border as thoroughly corrupt in other sectors as well. "The security forces clearly are involved in organized crime and syndicated smuggling," says a senior Hong Kong investigator. Police have long suspected that mainland officers have a finger in the

thriving black-market trade that brings an estimated \$650 million in electronics goods and thousands of automobiles to Guangdong's coastal cities.

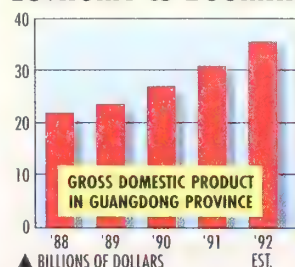
Increasingly, there's a blurred line between crime-fighting and police corruption. Last year, Chinese marine patrols started chasing into Hong Kong waters speedboats and fishing vessels suspected of smuggling. So far this year, Chinese patrols have seized 29 ships under Vietnamese and Panamanian registries, freeing ships and crew but keeping an estimated \$40 million in cargo, claiming it as contraband subject to confiscation.

It's just as difficult to figure out which side the law is on when it comes to car smuggling. So far this year, nearly 7,000 vehicles were stolen in Hong Kong, up 10% from last year. Cars in China have steering wheels on the left, so new Mercedes, Lexus, and Honda Legend models with right-hand drive are immediately suspect as thefts from Hong Kong. Even public-security staff can be seen tooling around in cars presumed to be stolen.

Defenders say corruption, crime, and vice are normal growing pains for newly industrialized countries. But so far, Beijing's gerontocracy is unable to replace Marxist ideology with new guiding principles, so government is "deteriorating into confusion and the wild pursuit of gain," says author and Guangdong expert Ezra F. Vogel. To keep these problems from boiling over, China's leaders will have to put as much emphasis on reforming legal and political institutions as they have on following Deng Xiaoping's exhortation to "get rich."

By Pete Engardio in Guangzhou, with Dave Lindorff in Hong Kong

SOUTHERN CHINA'S ECONOMY IS BOOMING...



...BUT CRIME ALSO IS SOARING



DATA: GUANGDONG PROVINCIAL GOVERNMENT, BW, ROYAL HONG KONG POLICE



HAMBURG SKYLINE
OVERBUILDING IN
EUROPE RESULTED
IN SOURCED LOANS

IT'S EUROPE'S TURN TO BAIL OUT THE BANKS

A deepening recession and high interest rates have lenders seeking aid

For decades, Continental Europe's megabanks were the models of triple-A financial strength and rock-solid stability. Not any longer. Stubbornly high German interest rates, deepening recession, and a worsening real estate market are battering lenders from Stockholm to Sicily.

One after another, bankers in many countries are trooping to their governments to demand bailouts and other emergency aid. Even the ones that aren't seeking handouts are hunkering down as profits dwindle and bad loans mount. Warns Robin Monro-Davies, managing director of London credit-rating agency IBCA Ltd.: "Loan losses will go up more than anyone thinks, and they'll go up fast."

JOLTED. Europe's banking mess may finally push the Bundesbank to cut interest rates. If Germany's central bank doesn't budge, all of Europe will feel more pain. Property prices are sure to fall further, and lending will dry up. The tightening credit crunch could mire Europe's recession into the mid-1990s. Several European countries, desperate to spur growth, have been shaving interest rates. But that has done little to prop up their financial systems or boost lending.

The squeeze is prompting some banks

to shrink money-losing retail operations and order layoffs. In addition, many lenders are seeking state aid, threatening to bloat government deficits. As much as \$20 billion of French lenders' \$60 billion in property loans have gone sour. So in mid-December, the banks asked the government for tax relief and, possibly, credit guarantees.

But in Scandinavia, rising losses have already led governments to take on a life-support role in most of the region's big banks. The Swedish government has taken over banks that control 25% of the industry's assets, and, on Dec. 10, Skan-

dinaviska Enskilda Banker, the country's largest privately owned lender, got in line for government guarantees. The Swedish government has hired McKinsey & Co. and Financier Cr dit Suisse First Boston to help it restructure the industry. It's also "trying to assure creditors that all obligations will be met in due time," says Bo Lundgren, Fiscal & Financial Affairs Minister.

Even as economic conditions deteriorate, Germany's high interest rates are denying many banks the opportunity to improve profit margins and ease the burden of carrying problem loans. Not only is the recession dampening loan demand but banks are also having a rough time making a profit on their mar-

sive portfolios of government debt. Banks finance part of these portfolios with short-term borrowings. But short-term rates, now around 9.4%, are nearly two percentage points above the yields the banks are earning on 10-year bonds.

Worse yet, losses are rising on existing loans. Lenders were jolted on Dec. 11 when steelmaker Kl ckner-Werke, with debts of \$1.7 billion to Deutsche Bank and others, became the first major German company to declare itself insolvent since 1982. Deutsche Bank's operating profits for the first 10 months of 1992 were already down 5% from 1991 levels. And even before Kl ckner's filing, Deutsche CEO Hilmar Kopper had indicated that he would make new and "substantial loan-loss provisions."

Even Switzerland is seeing banking strains mount. Geneva real estate prices have fallen as much as 40% recently, and Moody's Investors Service Inc. has stripped Swiss Bank Corp. and Cr dit Suisse of their triple-A ratings. Hans Kaufmann, head of research at Zurich's Bank Julius Baer, figures that as much as 15% of the \$120 billion of mortgage banks issued since 1987 may turn bad. As a result, money-losing smaller regional lenders are being swallowed up at a rapid clip by bigger rivals. Around the capital city of Bern, for example, the number of such lenders has fallen by half, to around 30, in 1992 alone.

Heavy loan-loss reserves, which were supposed to decline around Europe next year, could stay at peaks for some time. A "quite dramatic" deterioration of Germany's commercial property market, says BHF-Bank Managing Partner Heinz

SOME BIG HEADACHES FOR EUROPE'S BANKERS

BRITAIN Big banks may take loss provisions totaling \$7.3 billion

FRANCE Nonperforming real estate loans soar to \$20 billion

GERMANY Steelmaker Klockner-Werke's bankruptcy jars banking system

ITALY Weak balance sheets threaten privatization plans

SWEDEN Government takes over two of the four largest banks

DATA BY

not Reiners, will eat into Frankfurt bankers' profits. Britain's recession and falling home prices will force the nation's four big lenders—National Westminster Bank, Barclays, Midland Bank, and Lloyds Bank—to make \$7.3 billion in provisions for 1992, estimates Goldman Sachs International Ltd. analyst Rod Garrett. French banks have already recked away \$4 billion in reserves this year.

In 1993, the slump could claim more casualties. Italy's plan to privatize banks, beginning with Credito Italiano, the country's sixth-largest, could go awry. Italy's industry is suffering its deepest slump in two decades. The recent \$12.5 billion bankruptcy of state-

controlled industrial holding company EFIM left Italian banks holding the bag for an undisclosed sum.

A similar scene could unfold in France. Legislative elections next March are expected to oust the country's Socialists. Until recently, bankers expected that would accelerate privatization efforts. But falling profits will likely push privatization on the back burner. Concedes a manager at Crédit Lyonnais: "Our balance sheet would never permit it." For stressed-out European bankers, getting those balance sheets back in shape will be priority No. 1.

By Bill Jaretski in Paris, with John Templeman in Bonn, John Rossant in Rome, and William Glasgall in New York

ITALY

WHO NEEDS THE MONARCHY? GREAT BRITAIN PLC'

to business, the royals more than pay their own way

When the now separated Prince and Princess of Wales paid a visit to South Korea in early November, the media had a field day focusing on their obvious discomfort. But British businessman Dick Lovett targeted something else.

At a posh hotel reception in Seoul, Lovett introduced Prince Charles to a prospective Korean client and his wife. Charles chatted with the couple for several minutes. At evening's end, the awestruck client handed Lovett an order for 75,000 worth of scientific instruments from Lovett's Leicester company, Nedtron Ltd. "Prince Charles sells Great Britain PLC brilliantly," Lovett exclaims.

With Di and Chuck's marriage on the rocks, many British subjects have been wondering why some \$85 million of their tax money is being used to support the royal family each year. But as the Seoul visit shows, the royals more than pay their own freight by bringing in billions of pounds each year in trade and tourism.

PRICELESS. Take Prince Charles's quick salesmanship in Seoul. Only someone of the Prince's stature could have gotten together the chairmen of Hyundai, Samsung Shipbuilding & Heavy Industries, and Daewoo Telecom for a

roundtable discussion on the environment, says Frazer Ellis, group director of Davy International and coordinator of the Korea visit. The Prince's presence, he says, is "priceless."

And as every advertising maven knows, glamour sells. "One of the few things we've got to sell is green lawns,

history, and the royal family," says Peter Hennessy, a professor of contemporary history at Queen Mary & Westfield College.

Then there's foreign tourism. Britain draws about 18 million visitors every year, and they spend a total of about \$10 billion. What's the big attraction? Royalty-saturated sights such as medieval castles, horse-drawn carriages, and Beefeater guards. Alan Jefferson, international marketing director for the British Tourist Authority, shudders to think of what would happen to tourism if there were no royal family. "Britain's appeal as a destination would be much diminished," he says.

MIXED MEDIA. There's no denying snob appeal, either. A century ago, retailers noticed that consumers like to buy products that Buckingham Palace considers good enough to stock. Thus was born the Royal Household Tradesmen's Warrants Committee. The group decides which companies and products get to bear the royal arms and the phrase, "by appointment to Her Majesty the Queen." Companies clamor to get on the list, which now numbers about 700 and includes Harrods department store and the Guinness brewery. Each company can boast that it has been a trusted supplier to Buckingham Palace for at least three consecutive years.

Naturally, the British press jumps on every coming and going of the royal family. London's 11 daily newspapers,

for example, have given wide play to royal dalliances, and their motivation is not just voyeurism. They are in a fierce struggle to attract a dwindling number of advertisers in Britain's longest recession in 60 years. Market opportunities aren't lost on the royal family, either. Princess Anne recognized her value to the press when she banned photographers from her wedding, then charged newspapers \$1,100 per snapshot.

Some may think that the dysfunctional royal family has cheapened the currency. But Nedtron's Lovett says it's just the opposite. When he travels abroad, more people are aware of, and ask about, the royal family than ever before. True, the British will have to endure months of painful introspection about the monarchy's future. But in the end, says Hennessy, "The Italians are more likely to evict the Pope from the Vatican than the British are to abolish the monarchy."

By Paula Dwyer in London



NEXT STOP, SPLITSVILLE: CHARLES AND DIANA IN INDONESIA

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*For example, the 1993 Jaguar XJ6 Super Lease is available starting in February, 1993. 1993 Jaguar XJ6 example based on \$50,710 MSRP including transportation and pre-delivery inspection, excluding licensing, registration and taxes. 36 monthly payments of \$548.80 totaling \$19,756.80. Assumes capitalized cost of \$5,700 of MSRP. A down payment of \$2500, first month's payment, taxes, titling, licensing, registration fees due at lease signing. No security deposit required. Option to purchase at lease end for predetermined residual value. Closed-end lease. Lessee is responsible for excess wear and tear and \$.15 per mile for miles in excess of 45,000. See your participating Jaguar dealer for details. Subject to credit approval and insurability as determined by Jaguar Credit. Offer valid in the U.S. only.

THE COOL-HEADED MEDIATOR WHO'S TURNING POLAND AROUND

Hanna Suchocka had every reason to be frazzled when she took a break from budget wrangling to meet with a reporter in an intimate back room of Warsaw's marble-columned Parliament building. Poland's fifth Prime Minister since the nation threw off the Communists in 1989, Suchocka must hold together a fractious seven-party coalition and keep controversial reforms on track. When asked to name her greatest achievement, she quips: "The success is that a coalition exists at all."

She's being modest. Under Suchocka, Poland looks to be the first former Soviet satellite to turn the economic corner. Growth is likely to be 2% to 3% in 1993, after a flat performance this year. The steady rise in output is being powered by exports and a vibrant private sector.

But the 46-year-old Suchocka also gets much credit. Since taking over in July, she has broken the political deadlock that threatened to mire the country in grim limbo between a state-dominated and a private economy. Suchocka has restarted Poland's bogged-down privatization program. She has faced down striking unions, persuading them to agree to curtail strikes and moderate their wage demands in exchange for a say in privatizing enterprises. Most important, she has so far tamed President Lech Walesa, who is inclined to play to the crowds rather than stick with programs.

MORE MINKS. Suchocka is a tireless, cool-headed mediator who munches lettuce when she's nervous. She's known for her quick wit and guts. As a member of the rubber-stamp Parliament in the bad old days, she was long a thorn in side of the Communists. Her success in convincing public-sector workers and managers that they can benefit from privatization could prove a model for Russia and other countries, where sell-offs have sparked opposition.

Suchocka's achievements have boosted Poland's stock with

the world business community. The International Monetary Fund recently released \$1.7 billion in aid that was on hold since 1991 because of concern over Poland's budget deficit. Recently, several big multinationals, including International Paper Co. and Fiat, committed to invest more than \$2 billion in Poland. "Investment in Poland will outstrip Hungary and Czechoslovakia," says Noah E. Gotbaum, a consultant at London-based mergers-and-acquisitions group Central European Trust.



PRIME MINISTER SUCHOCKA

WANING STAR. Suchocka is getting a boost from private enterprise, which now employs 60% of Poland's work force, up from about 10% a couple of years ago. Private industry is drawing workers away from state dinosaurs, making them easier to kill. At government-owned truckmaker Star, for instance, the payroll has shrunk from 20,000 to 5,000 since 1990, as workers leave for higher-paying private jobs. And a growing middle class is sustaining big new shopping arcades in Warsaw, which this Christmas are selling everything from French cosmetics to mink coats.

But Suchocka isn't home free. She must wrestle with an obstreperous Parliament, whose big spending clashes constantly with IMF requirements to hold the budget deficit to 5% of gross national product. Rising unemployment could increase the strain.

Suchocka could well be headed for another showdown with the unions. And her coalition could be tested by an emotional public debate on abortion. But most observers are betting that Suchocka will work out a deal that allows reform to continue and Poland's powerful new private sector to thrive. Snaps Suchocka: "It is not difficult to imagine what Polish streets and shops can look like if we decide to take another path." The Poles, many of whom are getting a taste of a better life, seem to agree.

By Gail E. Schares in Warsaw

GLOBAL WRAPUP

GERMANY

Business is prodding Chancellor Helmut Kohl to clamp down on the far right. On Dec. 7, New York City Comptroller Elizabeth Holtzman and Finance Commissioner Carol O'Cleiregan wrote Kohl saying they were "greatly disturbed" by Germany's wave of xenophobic violence—both on moral grounds and because it threatens the safety of the city's \$265 million pension-fund investment in German securities. They asked Kohl to curb the violence. It seems Kohl, who needs \$1 trillion in investment for eastern Germany over the next decade, is getting the message. He quickly banned a

small neo-Nazi party and arrested its leader. And he has ordered the far-right Republikaner Party put under surveillance. The "Reps" now have a 5% popularity rating in the polls—enough to win Bundestag seats in an election. Along with trying to allay foreign investors' worries, Kohl is responding to complaints from German business leaders, who worry that the right-wing activities will damage their international prospects.

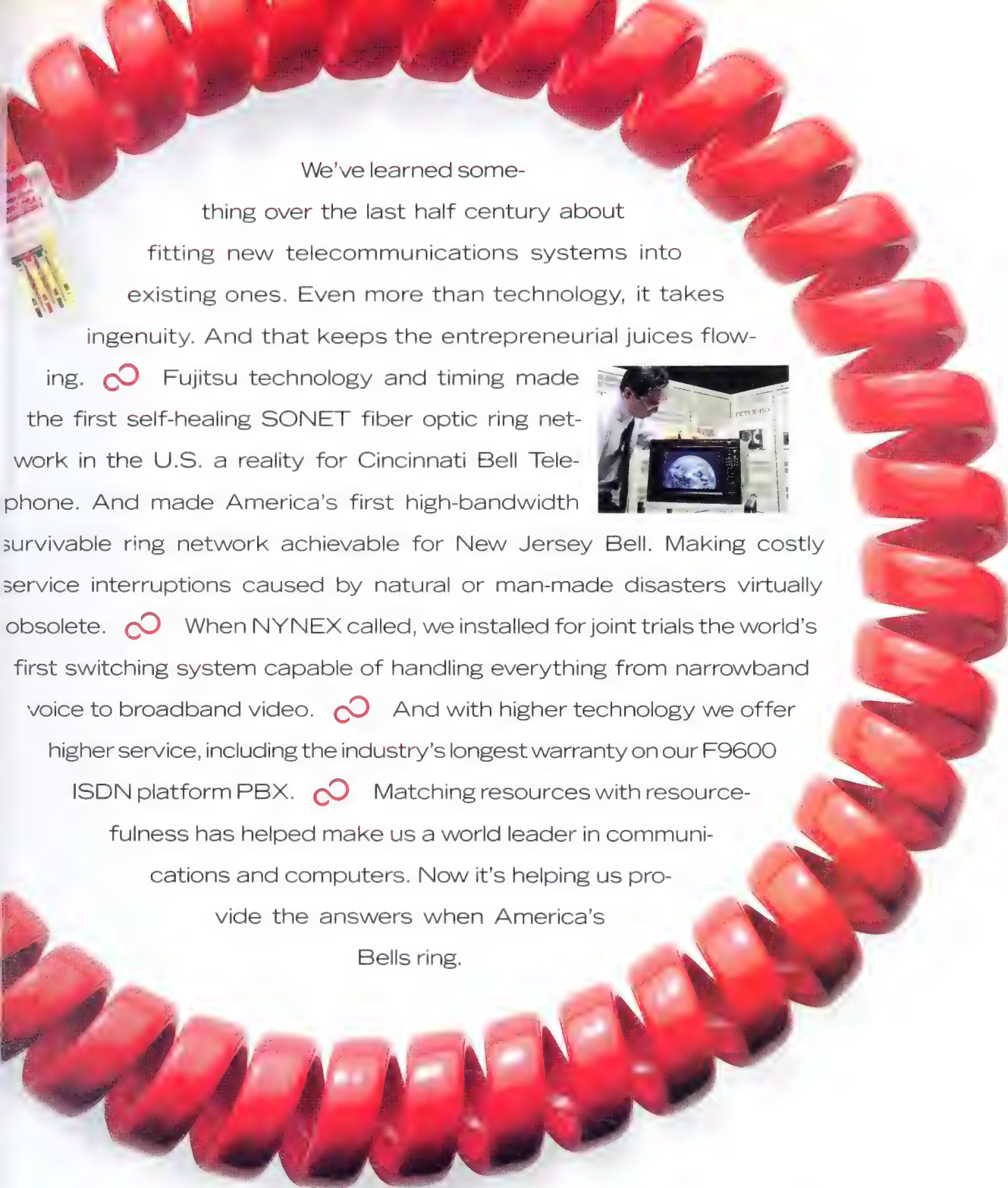
MEXICO

Free trade between the U.S. and Mexico may not be far off, but don't tell that to Tandy Corp. Its 24 Radio Shack stores in Mexico can't sell

imported phones or walkie-talkies this Christmas. Worried that this year's nearly \$18 billion trade deficit could undermine the peso and frighten off investors, Mexican authorities are enforcing a long-forgotten law requiring hundreds of foreign-made products to meet local quality standards. The result: A half-dozen Radio Shack semi-trailers full of merchandise are parked in Laredo, Tex., while Mexican labs test each model. Lots of other foreign companies are experiencing similar problems. Mexico recently slapped a 15% tariff on live U.S. cattle and increased the duty on packaged beef to 25% to combat meat imports, which have quintupled in three years.



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phone. And made America's first high-bandwidth
survivable ring network achievable for New Jersey Bell. Making costly
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WHERE TO INVEST IN 1993

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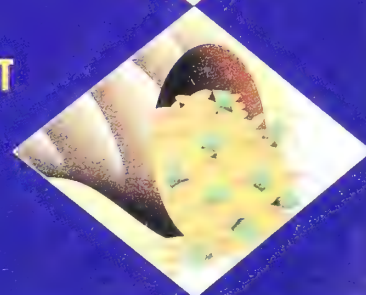
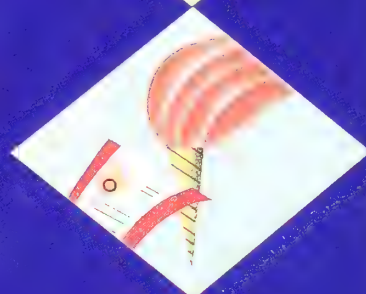
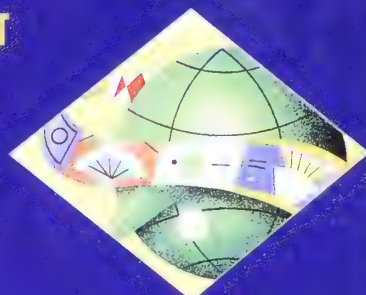
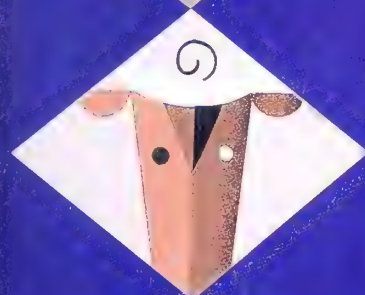
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121 As you near the 1993 starting gate, it might be wise to examine the track records of these 900 public companies



MAKING IT BIG IN MODERATE TIMES

INVESTORS CAN STILL TURN A GOOD BUCK, EVEN IN AN AGE OF FEW EXTREMES

Moderate Democrat Bill Clinton is taking over the reins of government with an economic team of moderates in tow. He'll likely take a moderate approach to helping the U.S. economy, which will most likely expand in 1993 at a moderate rate of 3% or so. That's enough to produce moderate corporate profits, and so stocks will, on average, make only moderate gains. Interest rates should be moderate, too, neither climbing nor falling very much.

Welcome to 1993, the year, you guessed it, of moderation. Extremes are out, in politics and in economics. Investor expectations will have to be moderated, too, to the spirit of the age. Look at the asset-allocation recommendations of the major investment strategists (table). A "normal" asset mix is 55% to 60% stocks, 35% to 40% bonds, and the remainder, if any, in cash. The majority are clustered in the middle. Only Steven Einhorn of Goldman, Sachs & Co. and Edward Kerschmer of PaineWebber Inc. look really bullish on stocks, with 70% and 65% allocations. Even the most bearish, A. Rama Krishna of First Boston Corp., isn't all that downbeat. He says he's keeping stocks low and cash high because he expects a stock market correction early in the year. At that point, he says, he'll increase his equity allocation.

In an era of few extremes, you can still make good money. But it takes a lot more work to earn really high returns. That's where *BUSINESS WEEK*'s 1993 Investment Outlook can help. In this special double issue, we show you how to navigate in investment world for maximum returns while limiting your risks.

Before you start, you need to know what the economic landscape will look like (page 62). On balance, the 1993 econ-

omy will be a shade brighter than 1992 and could even post its best performance since 1988. The biggest pluses will be low inflation and stronger profits. The big negative will still be high debt.

The economy will get some help from Clinton (page 66). He seems ready to fulfill his campaign promises of investment-oriented stimulus coupled with a long-term deficit-reduction plan.

Lifted by a more upbeat economy, the stock market should gain again in 1993 (page 72). But with the market already at near-record levels, most pros foresee only modest gains. Those who can take a little more risk will likely earn more by

ideas, with earnings forecasts for 900 companies. There's a world of ideas, too, on how to invest overseas. We even manage to find good opportunities in Europe beset by recession and currency crises (page 80).

FLATTER CURVE. If you prefer to let someone else do your stock-picking, consider a mutual fund (page 94). Millions of individual investors have been doing just that, and the results can be impressive if you know where to look.

To balance out a portfolio, you also need some bonds (page 98). Investors in long-term bonds may pick up some capital gains as the yield curve—the range

of interest rates from three months to 30 years—starts to "flatten." Short-term rates should come up a bit, and long rates, down a tad. The really hot corner of the fixed-income market, though, is municipal bonds (page 102). With tax rates on the wealthy sure to increase, there will be big demand in tax-exempt issues.

Low inflation is still hurting tangibles, especially precious metals (page 110). But the market for fine art is enjoying

a moderate pickup (page 112). In collectibles, too, there are hot properties—such as Presidential autographs (page 114). Residential real estate may offer some good buys, but the payoff from commercial properties is still a long way off (page 108). The commodity markets will be watching Clinton closely (page 104). Yet-undefined trade and farm policies could have a huge impact on the prices.

Although there are many uncertainties on the political and financial horizon, low inflation, combined with an expanding economy, should produce an investor-friendly environment.

By Jeffrey M. Laderman in New York

WHERE STRATEGISTS SAY YOU SHOULD PUT YOUR MONEY

Current recommended asset allocation for balanced accounts

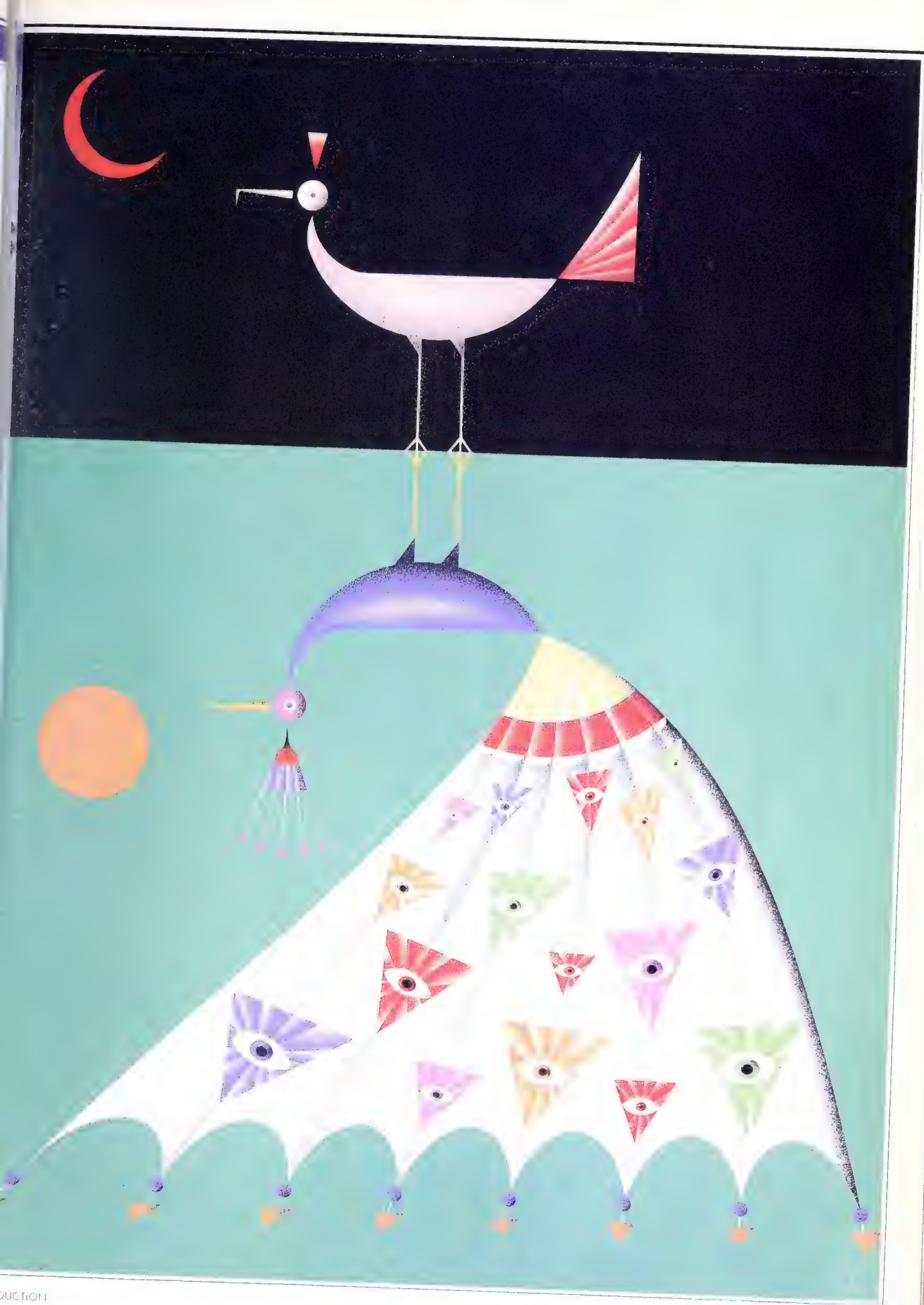
Strategist	Firm	Stocks	Bonds	Cash
Steven Einhorn	Goldman Sachs	70%	25%	5%
Edward Kerschmer	PaineWebber	65	35	0
Rao Chalasani	Kemper Securities	60	35	5
Charles Clough	Merrill Lynch	60	30	10
Michael Sherman	Shearson Lehman Bros.	55	30	15
Eric Miller	Donaldson Lufkin Jenrette	50	40	10
David Shulman	Salomon Brothers	50	35	15
A. Rama Krishna	First Boston	40	30	30

DATA BW

investing in small-company stocks (page 74). Economic conditions and market history both point to another strong year for small caps.

When the market outlook is for modest gains, investors need to be better stock-pickers. We have plenty of stock ideas from which to choose. First, check out our expanded Inside Wall Street (page 78), which has twice as many insightful investment ideas as usual. We've also handed some smart professional investors a phantom \$100,000 each and asked them to construct a portfolio of stocks for the new year (page 90).

And the Investment Outlook Scoreboard (page 123) is a mother lode of



COMING UP, THE BEST YEAR FOR BUSINESS SINCE 1988

Better profits, more jobs, and low inflation add up to a recovery that will build slowly—but could last

The U.S. economy in 1993 will offer a little something for everyone. For households, it will bring a few more jobs and the opportunity to unload some more 101's. Businesses can also shed more debt—and make more money. For investors, the economy will provide a generally friendly climate for stocks, a bit less warmth for bonds. And for President-elect Bill Clinton, it will afford the opportunity to concentrate on his long-term agenda without the distraction of the economy's short-term needs.

On balance, 1993 will be a shade brighter than 1992. That's far from blinding, but the year is shaping up to be the best since 1988. Declining inflation, low interest rates, rising productivity, and better profits will be the economy's footholds, as it continues to crawl out of its deep hole. However, a familiar list of structural barriers—from debt to corporate restructuring to defense—still blocks the way. And there is a new obstacle: a widening trade deficit.

BUSINESS WEEK expects the economy to grow 3% from the fourth quarter of 1992 to the final quarter of 1993. That's right on the average of our survey of forecasts from 50 business economists across the nation (chart, table).

A BREATHER. As we see it, the economy will be a bit weaker than the consensus expects in the first half. Consumers spent well ahead of their gains in income in 1992's second half, and they will have to catch their breath. That's especially true since job opportunities should open up only slowly, and because by Apr. 15, employers will have to give back to Uncle Sam the 1992 cut in payroll withholding taxes. We project a stronger-than-consensus second half, driven by better consumer demand, stronger corporate earnings, and a dollop of fiscal stimulus.



But even with better growth, the jobless rate will not fall by much. "We're going to see a large influx of discouraged workers who had bailed out of the labor force," says Kurt E. Karl at WEFA Group. Job growth also will be held back by companies' efforts to cut costs, boost efficiency, and increase competitiveness.

In fact, the most striking feature of this recovery in 1992 was that growth in productivity accounted for all of the expected 2.6% growth in the economy. As

private employment stayed flat, companies squeezed more output from existing workers. Productivity gains will continue in 1993, although economic growth will be better balanced between job growth and gains in efficiency.

HARD REALITY. But with low inflation a fact of life, one hard reality remains: "If you want to improve the bottom line, it has to come from the cost side," warns Lloyd T. O'Carroll of Reynolds Metals Co. Two ways companies are cutting costs are by using temporary workers and paying overtime to existing employees. Both tactics avoid the soaring costs of benefits, which are rising nearly twice as fast as wages and salaries. But they also result in fewer

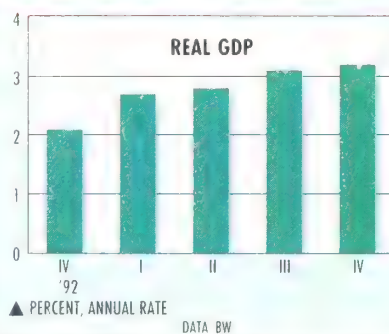
new employees.

Where the benefits from cost-cutting and productivity gains will show up is on the bottom line. Although inflation in 1992 will remain low at 3% or less, unit labor costs may not grow at all. That means fatter profit margins. In addition, lower interest rates are relieving the corporate debt burden. Add in expected gains in sales volume, and it's easy to see why companies are getting on better financial footing. Ultimately, that will help hiring conditions—but probably not until the second half of 1993.

Better profits is one reason business investment will be a growth leader in 1993. Business construction will remain a drag, but equipment spending is on a roll, led by a surge in outlays for information-processing machinery. That's an upshot of efforts, especially by service producers, to boost productivity. An expected retroactive investment-tax credit will help that process along—and so will low interest rates.

Although the Federal Reserve is unlikely to cut short-term rates further, it might be able to let policy coast all the

THE CONSENSUS FORECAST: STEADY BUT MODERATE GROWTH



WHAT ECONOMISTS ARE PREDICTING FOR 1993

	Percent change in real gross domestic product					Real GDP	Consumer prices	Prime rate	Unemployment rate
	1992	1993				Percent change		1993	1993
	IV	I	II	III	IV	IV Q '92-IV Q '93		IV Q	IV Q
ROBERT J. BARBERA Lehman Brothers	3.7%	4.3%	4.1%	3.7%	3.8%	4.0%	3.0%	7.0%	6.6%
MICHAEL W. KERAN Prudential Insurance	2.1	4.0	4.0	4.0	4.0	4.0	2.8	7.2	6.3
H. ERICH HEINEMANN Ladenburg Thalmann	3.1	3.6	4.4	3.6	4.1	3.9	3.7	7.8	6.8
WILLIAM C. MELTON IDS Financial	3.0	3.6	3.9	4.0	3.9	3.8	3.4	6.7	6.5
JAMES F. SMITH Univ. of North Carolina	3.9	5.5	2.1	3.2	4.1	3.8	2.3	5.0	6.4
MICHAEL R. ENGLUND MMS International	1.5	3.5	3.5	3.5	3.5	3.5	2.8	6.5	6.8
STEPHEN R. GOODWIN Cartwright & Goodwin	2.2	3.5	3.5	3.5	3.5	3.5	2.7	6.5	6.7
ROBERT H. VATTER Metropolitan Life	1.0	3.0	3.0	3.5	3.7	3.5	3.7	7.0	6.7
KURT E. KARL WEFA Group	2.2	2.8	3.2	3.8	3.7	3.4	3.4	6.8	6.8
DAVID L. LITTMANN Comerica	2.8	4.1	3.4	2.7	3.3	3.4	3.9	7.0	6.4
RICHARD S. PETERSON Continental Bank	2.0	3.5	3.5	3.0	3.0	3.3	3.2	6.3	6.8
C. HEATHER DILLENBECK U.S. Trust	2.0	2.5	3.0	3.5	3.5	3.2	3.4	6.5	7.0
EDWARD S. HYMAN JR. ISI Group	2.5	2.5	3.5	3.5	3.5	3.2	2.0	6.0	6.2
DAVID M. JONES Aubrey G. Lanston	2.5	2.7	3.1	3.4	3.7	3.2	3.0	7.0	6.8
LAURENCE H. MEYER Laurence H. Meyer & Assoc.	2.0	3.3	3.3	3.4	2.8	3.2	2.8	6.0	6.8
LYNN O. MICHAELIS Weyerhaeuser	1.9	2.7	2.5	4.1	3.5	3.2	2.2	6.6	7.6
JAMES R. SOLLOWAY Argus Research	1.7	3.6	3.0	3.6	2.5	3.2	3.4	6.5	6.8
MAUREEN ALLYN Scudder, Stevens & Clark	2.2	3.1	3.3	3.2	3.0	3.1	2.6	5.8	6.9
WILLIAM C. DUNKELBERG Nat. Fed. of Ind. Business	2.2	2.5	2.8	3.4	3.3	3.1	3.2	7.0	6.8
DONALD RATAJCZAK Georgia State University	1.9	2.3	2.9	3.1	3.4	3.1	3.0	7.0	7.0
J. PATRICK BRADLEY PNC Financial	2.3	2.6	3.2	3.2	3.1	3.0	3.2	6.3	6.8
JAMES C. COOPER, KATHLEEN MADIGAN Business Week	2.9	1.8	2.6	3.6	3.9	3.0	2.6	6.0	7.0
CAROL LEISENRING Core States Financial	1.3	2.5	2.7	3.3	3.4	3.0	2.6	7.0	6.7
F. WARD MCCARTHY Stone & McCarthy	2.2	3.3	1.8	3.5	3.5	3.0	3.3	6.8	6.5
LLOYD T. O'CARROLL Reynolds Metals	1.9	2.2	2.4	2.9	4.0	3.0	2.7	6.0	7.2
NICHOLAS S. PERNA Shawmut National Bank	1.5	2.9	3.1	3.0	3.1	3.0	3.4	6.3	7.1
THEODORE H. TUNG National City Corp.	2.6	2.4	2.8	3.4	3.8	3.0	4.0	6.8	7.1
ROBERT G. DEDERICK Northern Trust	2.4	2.6	2.8	3.1	3.1	2.9	3.0	6.0	7.0
PAUL GETMAN Regional Financial Associates	1.4	2.0	2.4	3.8	3.5	2.9	3.9	5.7	6.8
DAVID G. HENSLEY Univ. of Calif. at Los Angeles	1.5	2.5	3.0	3.1	2.9	2.9	3.2	6.4	6.9
DAVID H. RESLER Nomura Securities, International	2.4	2.8	2.4	3.1	3.3	2.9	3.0	6.0	6.8
GORDON R. RICHARDS National Assn. of Manuf.	1.9	2.1	2.8	3.6	3.1	2.9	2.8	6.5	6.4
JOHN D. WALTER JR. Dow Corning	1.9	2.2	2.5	3.1	3.7	2.9	2.7	6.0	6.9
JOHN M. GODFREY Barnett Banks	2.5	3.0	2.7	2.8	2.8	2.8	2.9	6.5	6.7
IRWIN L. KELLNER Chemical Banking	2.1	2.5	2.6	3.1	2.9	2.8	3.5	7.3	6.7
ALLEN SINAI The Boston Co.	2.7	2.2	2.6	3.4	3.2	2.8	2.8	6.3	6.7
JEFF K. THREDGOLD KeyCorp	2.2	2.7	2.9	3.0	3.1	2.8	3.0	6.5	6.8
ROGER BRINNER DRI/McGraw-Hill	2.1	2.4	2.5	2.2	3.7	2.7	2.9	6.5	7.0
SAMUEL D. KAHAN Fuji Securities	1.0	2.0	3.0	3.0	2.5	2.7	2.6	6.3	6.9
ALAN C. LERNER Bankers Trust	1.7	2.0	2.0	3.0	3.6	2.7	3.3	6.5	7.2
TAPAN MUNROE Pacific Gas & Electric	2.0	2.3	2.4	2.2	3.6	2.7	3.0	6.5	7.1
NORMAN ROBERTSON Mellon Bank	1.5	2.1	3.2	2.9	2.6	2.7	3.5	6.3	7.0
RICHARD D. C. TRAINER Bank of Tokyo	1.5	2.3	3.0	2.8	2.5	2.6	3.5	6.0	6.7
BURTON ZWICK Lord, Abbett & Co.	1.5	1.7	2.2	3.1	2.8	2.5	2.8	6.5	7.0
DAVID MUNRO High Frequency Economics	1.0	2.2	1.9	2.5	2.9	2.4	2.3	6.0	7.4
JAMES E. ANNABLE First Chicago	1.7	2.7	2.5	2.4	1.7	2.3	2.9	6.0	7.4
ROSANNE M. CAHN First Boston	3.2	1.1	1.9	3.0	3.0	2.3	2.9	6.0	7.0
LAWRENCE A. HUNTER U.S. Chamber of Commerce	2.9	2.7	1.7	1.3	0.8	1.6	3.7	6.0	7.5
RAYMOND T. DALIO Bridgewater Group	2.5	2.0	1.5	1.5	1.2	1.5	3.7	6.3	6.8
LACY H. HUNT HSBC Holdings	2.7	1.0	1.5	1.6	1.7	1.5	2.8	5.8	7.2
CONSENSUS	2.1%	2.7%	2.8%	3.1%	3.2%	3.0%	3.1%	6.4%	6.9%

way through 1993. Even economists who foresee Fed tightening expect no more than a half-point hike in the federal funds rate, and not until late in the year.

The Fed can bide its time because inflation will remain flat on its back. Going into 1993, real gross domestic product is some 4% below its long-term potential. With so many underutilized resources, real GDP could grow 3% per year in both 1993 and 1994 without getting close to an inflationary flash point. Tame inflation should keep upward pressure off long-term rates, but significantly lower long rates will depend upon a credible deficit-reduction plan.

SOME DRAGS. The 1993 economy will still face some rough spots. One of the biggest is a deteriorating trade outlook. Recessions in Japan and most of Europe are depressing foreign demand. Also, "problems in the European Community, the currency turmoil, and uncertainty abroad about Clinton will be a big drag on our exports," says C. Heather Dillenbeck of U.S. Trust Co. of New York. At the same time, recovery in the U.S. will bring in more imports. Other drags: De-

fense cuts will accelerate. The lid on bank lending will come off only slowly. And state and local governments face another tough year of trying to live within their operating budgets.

Perhaps the biggest uncertainty in the outlook is the amount of short-term fiscal stimulus that the new Administration will offer. "It would be politically dan-

The Fed can bide its time, because inflation will stay flat on its back



gerous for Clinton to back away from his campaign promise to stimulate the economy," says Michael R. Englund of MMS International. Most economists expect a modest package in the \$20 billion to \$30 billion range, particularly since the economic data are looking better.

But some economists question the rationale for any further widening of the

federal deficit. That's because the credit markets, which are so hypersensitive to that issue, would respond by pushing up long-term interest rates. "If deficit spending were the key to prosperity, we would be in a boom," says Lacy H. Hunt of HSBC Holdings PLC. But the problem argues Paul Getman of Regional Financial Associates, is that "left on its own the economy can grow only about 2% to 2.5% for the next couple of years." That pace of growth may be good enough for economists, but not for voters.

In shaping any short-term stimulus package, Clinton will also be looking further down the road. If the economists are right about 1993, this slowly building upturn has a good chance to evolve into an expansion that will still be alive and kicking in 1996. After all, the Presidency of Ronald Reagan offers an important lesson missed by both Jimmy Carter and George Bush: A healthy economy early in your term is not important. What's happening around reelection time is what really matters.

By James C. Cooper and Kathleen Madigan in New York

HOW '93 LOOKS TO A MAN WHO HIT '92 ON THE HEAD

Forecasting modest growth of about 2.5% in 1992 was a piece of cake—17 of the 50 economists surveyed in late 1991 nailed that one. But foreseeing that a growing economy would trigger rising unemployment was a unique forecasting trick pulled off by only a few economists. Stephen R. Goodwin, president of investment bank Cartwright & Goodwin Inc., not only expected the inertia in the labor markets in 1992 but he also correctly anticipated a 6% prime rate at yearend and an annual inflation rate hovering near 3%.

Goodwin lists five fundamental problems that have been impeding a strong upturn: the massive debt overhang, defense cuts, mounting bankruptcies, corporate restructurings, and a glut of commercial real estate. These problems are why he labels the economy's performance over the last three years as a "growth recession." And they were the reasons for keeping his 1992 outlook relatively downbeat. In fact, his predicted unemployment rate of 7.5% tow-



GOODWIN: "NOTHING TO GET EXCITED ABOUT"

ered over the consensus projection of 6.8%. But, he says: "At the time, the number didn't seem high to me."

For 1993, Goodwin expects faster growth for real gross domestic product, but "it's nothing to get excited about," especially, he adds, compared to the torrid pace of past upturns. Eco-

nomics growth of 3.5% will trim the unemployment rate to 6.7% by the end of 1993, Goodwin projects.

Along the way, he expects another cut in short-term interest rates by the Federal Reserve and a small fiscal-stimulus package by the Clinton Administration. But Goodwin warns that this economy needs more than just Washington prodding in order to build real momentum. "Job creation, a resurgence in personal income, and more bank lending to small and midsize businesses," he says, "are essential to launch a sustainable recovery."

Goodwin would also like to see the savings rate, now at about only 4.5% of disposable income, rise to 6%. That would expand the supply of funds necessary for business investment. And it is shifts in the economic basics, like more savings and less debt, that Goodwin feels are imperative in order to change the recovery's on-again, off-again performance into one of steadier and stronger growth.

By Kathleen Madigan in New York



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HE REALLY MEANS WHAT HE SAID

The President-elect's economic plan sticks to his promises

As he puts the finishing touches on his economic policy proposals, Bill Clinton is looking a lot like Ronald Reagan. No, not the government-bashing, tax-slashing supply sider. But the Reagan who meant what he said. President-elect Clinton, it appears, intends to do just what he promised in the campaign.

On the stump, Clinton committed himself to an investment-oriented economic-recovery plan coupled with a program to halve the budget deficit over four years. And he called for a major new effort to spur research and development and enhance job training. His top domestic appointments and the work being done by his transition team both suggest this is exactly where Clinton will be concentrating his efforts.

FAR HORIZONS. Clinton also promised a stimulus package. But signs of solid, if unspectacular, growth will allow him to deflect calls for a program so big as to undermine his deficit-reduction goals. Instead, he should be able to keep his eye on the economic horizon. Says one senior adviser: "The focus is on the long term—what we are going to do with our growth agenda over several years."

The President-elect has picked an economic team that shares his views on the need to boost saving and investment. But the group, led by incoming Treasury Secretary Lloyd Bentsen, Budget Direc-

tor Leon E. Panetta, and senior White House economic adviser Robert E. Rubin, may well clash over key elements of policy. Panetta is a deficit hard-liner, while Bentsen, though a fiscal conservative, worries more about the need for tax-based incentives to encourage both savings and investment. Clinton's choice to head the Council of Economic Advisers, Laura D. Tyson, professor at the University of California at Berkeley, believes in some forms of trade intervention to promote high tech and other important U.S. industries, while his Labor Secretary-designate, Harvard University's Robert B. Reich, believes that competitiveness is built best by improving public works and education. The task of sorting out the differences and formulating a coherent economic vision will fall initially to Rubin, who will be heading up a new economic council within the White House. But Clinton has made clear that he will have the last word on all economic policy.

With the final decisions to be made by early January, the big question facing the Clinton team remains: How much short-term stimulus is necessary to keep the economy chugging ahead? Clinton aides are cautiously optimistic about the economy's near-term prospects but not entirely convinced that it has really turned the corner. One senior transition official says the odds of a sustainable

recovery are improving, although he warns there is "a 25% probability that this is another false start." Clinton will be watching employment and other indicators for a few more weeks before he decides how much stimulus to seek. "This is the major economic policy decision we're going to have to make. What we've got to decide is what to do, how much, and when," Clinton said at the economic conference he chaired in Little Rock in mid-December.

But the betting is that, as long as the signs stay positive, he'll propose little more than a modest speedup of already planned actions. For instance, he might advance into early next year a few bil-



THE TOP OF CLINTON'S WASHINGTON AGENDA

RESTORE THE INVESTMENT TAX CREDIT

The on-again, off-again ITC will be back. The Clinton version will tie the credit to a company's past investment record, offering the benefit only on outlays made over and above those made in previous years

LEAVE SPENDING

Clinton has promised to cut the deficit in half by the end of his first term, a task that will require deep spending cuts. Likely targets: benefits for wealthy retirees and subsidies for farmers. Deficit-reduction will get greater priority if the outlook improves

INVESTMENT

Clinton has pledged to spend as much as \$80 billion in the next four years on such public works as roads, bridges, and pollution-control technology, and on edu-

SHUFFLE THE TAX BURDEN

Clinton has pledged to raise tax rates on families earning more than \$200,000, impose a surtax on millionaires, and toughen the alternative minimum tax. At the same time, he wants to cut taxes for the middle class, probably for families earning less than about \$50,000

REDUCE TAXES ON CAPITAL GAINS

Finally. After years of squabbling, Congress will likely enact a capital-gains tax cut in 1993. But the incentive probably will be limited to investments in startups, held for several years

HEALTH-CARE REFORM

Clinton will introduce a major overhaul of the nation's health-care system within the first few months of his Administration. But it will probably take at least a year to get the complex changes enacted into law



on dollars of his proposed four-year \$80 billion public-investment spending plan. Similarly, he might call for a small extra tax credit for capital-equipment purchases made in early 1993. Total stimulus: probably around \$30 billion in 1993. In addition, aides are looking at other ways to stimulate growth without either increasing spending or cutting taxes further. One idea on the table: urging bank examiners to ease up a bit on financial institutions and thereby encourage them to lend more readily.

SURPRISE TACKLE. But Clinton's main goal is promoting long-term growth. That's just fine with many executives. Says Edward R. McCracken, CEO of Silicon Graphics Inc.: "There have been too many attempts at short-term stimulus in Washington. In business, you have to make decisions on what things will be like two or three years from now."

The broad outlines of Clintonomics—built on a mix of public and private investment—have been clear for months. Clinton will try to stimulate business spending with an investment tax credit and a capital-gains tax cut for investors in new businesses. His public investment program features \$20 billion a year in infrastructure spending, including money for education and training as well as traditional public works.

One possible surprise: Bill Clinton may tackle deficit reduction with much more vigor than many expect. He has promised to pay for all of his tax incen-

tives and new spending with tax hikes on the rich and some modest spending cuts. But to meet his goal of chopping the deficit in half by 1996, he may have to be still more aggressive. On that front, he'll be pushed by Panetta—and by Alice Rivlin, whom Clinton has tapped to be Panetta's deputy at the Office of Management & Budget. Both will be urging tax hikes as well as tough, specific spending reductions aimed at popular middle-class subsidies. Two likely options for the Clinton bud-

Clinton may tackle the deficit with more vigor than many expect



get slashers: raising medicare premiums and shaving farm subsidies. The economic team is "good news for those of us who care about the deficit," says one top Senate Republican.

Clinton may have no choice but to listen to his team. As he learned in the final days of the campaign, the bond markets will be watching him like a hawk. Despite a lack of inflationary pressure, the financial markets remain extremely jittery: In November, long-term interest rates rose by more than 30

basis points after traders convinced themselves that Clinton would push for budget-busting stimulus. If the new President fails to come up with a credible deficit-fighting plan, interest rates could start rising, and that could cripple the recovery. The best bet for reassuring the markets is for the Clinton team to produce a package of spending cuts and tax hikes that will kick in next fall.

While any spending cuts may meet tough resistance on Capitol Hill, Clinton's tax proposals are not very ambitious and should sail through Congress. Indeed, Congress passed a tax bill last March that was almost identical to the likely Clinton plan, only to see it vetoed by Bush. Clinton's version will be highlighted by an investment tax credit (ITC). He's still working out details, but the credit is unlikely to apply to all new equipment. To get the biggest bang for their buck, the Clintonites would like to limit the credit to investment that represents an increase over some base period.

Such an incremental credit could work like this: Say a company had bought an average of \$10 million worth of capital equipment each year for the past three years. If it upped its investment in 1993 to \$15 million, it would be eligible for a credit only on the \$5 million difference. The benefit to Treasury is that the restriction would both limit the revenue loss to the government and reduce the amount of subsidy for equipment that would have been bought anyway. The

downside is that an incremental ITC might punish the very companies that continued to invest through the economic slump.

Capital-intensive industries will love the credit, although they'll grumble if Clinton makes it incremental. But the service sector, which is less capital-intensive than manufacturing and thus has less use for an ITC, could raise a fuss. Service-sector executives may fear that business would eventually be forced to pay for the ITC with an increase in the corporate tax rate.

Similarly, investors may have mixed feelings about Clinton's capital-gains tax cut. The good news is that, after years of watching Washington squabble, they will finally get something. But it's probably going to be a lot less generous than President Bush's various plans—and may exclude most mainstream stock and bond investments. Details on the Clinton proposal are fuzzy, but he seems most interested in targeting small business or startups. One possibility is cutting the tax in half for small-business investments held at least five years.

To most executives, even those modest steps are better than gridlock. Says San Francisco investment banker Sanford R. Robertson: "An investment tax credit helps. Capital gains helps. Anything to increase the savings rate helps."

BOND BOOM? Clinton's plans won't have a major impact on individual taxes, except for the highest-income taxpayers. The middle class may get some relief from a modest tax cut for those making less than \$50,000 or so. Clinton may toss in an additional break for families with children. But, as Bush reminded voters during the campaign, the rich can expect to see their taxes hiked. Clinton will probably raise the top rate to 36% for those earning more than \$200,000. And he'll hit the very wealthy with a 10% surtax on income in excess of \$1 million. In addition, he has promised to stiffen the alternative minimum tax.

Higher tax rates could be a windfall for the tax-exempt bond market, which should see a boom in demand by rich investors scurrying for shelter. State and local governments will need to bor-

row to finance their share of Clinton's promised infrastructure spending plans. But overall muni volume will nonetheless slide in 1993, as the recent refinancing surge begins to slow down (page 102).

And it's not only rich folk who will be wary of the taxman. U.S. subsidiaries of foreign-owned corporations may take a hit. Clinton has vowed to crack down on those that try to avoid U.S. taxes. He says he can produce \$45 billion in new revenues from increased enforcement, but most experts believe he'll be lucky to get 20% of that.

From the beginning, Clinton has been reasonably clear about his tax and spending plans. His views on trade issues are less explicit, but no less important, since Bush is leaving him with two huge pieces of unfinished business: the North American Free Trade Agreement and the 108-nation talks known as the Uruguay Round of the General Agreement on Tariffs & Trade.

Most U.S. businesses, eager to take advantage of investment and sales opportunities in Mexico, want to see NAFTA

CLINTON'S ECONOMIC TEAM



LYLOYD BENTSEN

TREASURY SECRETARY The smooth and powerful chairman of the Senate Finance Committee, Bentsen is an expert in the ways of Capitol Hill. Knows the tax code inside out and has been a key player in trade matters. Will be chief economic spokesman



LAURA D'ANDREA TYSON

CHAIR, COUNCIL OF ECONOMIC ADVISERS Professor of economics at the University of California at Berkeley. A self-described 'cautious activist' on trade policy, Tyson emphasizes that higher R&D spending and better training are needed to make the U.S. more competitive



LEON PANETTA

BUDGET DIRECTOR Chairman of the House Budget Committee, he has made a crusade of deficit-reduction. Panetta has taken on powerful interests in Washington but can slog through the nastiest budget battles with good humor. Shares Clinton's interest in governmental reform



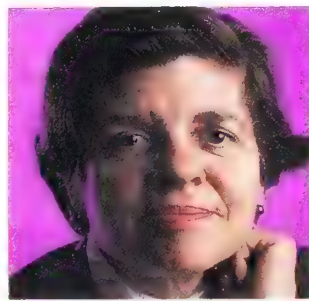
ROGER ALTMAN

DEPUTY TREASURY SECRETARY Vice-chairman at Blackstone Group, a New York merchant banking firm. Tough and abrasive, Altman was an Assistant Treasury Secretary in the Carter Administration. Met Clinton when both were students at Georgetown University



ROBERT RUBIN

SENIOR ECONOMIC ADVISER Co-chairman of Goldman Sachs. A longtime Democratic fund-raiser, Rubin has become increasingly interested in policy issues. A key liaison to the securities markets, the low-key Rubin could fit in well as the chief White House economic aide



ALICE RIVLIN

DEPUTY ADMINISTRATOR, OFFICE OF MANAGEMENT & BUDGET Former director of the Congressional Budget Office, currently at the Brookings Institution. Another deficit hard-liner, Rivlin has focused increasingly on the need for spending reductions, rather than tax hikes

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implemented at once. Labor and environmental groups, however, would like to see the new President renegotiate the agreement to increase protection, but that's not in the cards. Clinton believes that he can address some of these issues in side agreements with Mexico without having to reopen negotiations on the entire treaty.

The Uruguay Round is less beloved of U.S. companies, which are sending mixed signals to the next Administration. The talks recently got a boost when Bush bludgeoned the European Community into a ground-breaking compromise on agricultural export subsidies. But with U.S. corporations divided on just what strategies they favor, the eventual outcome is far from clear. American companies appreciate the lowering of trade barriers and tariffs abroad, but manufacturers are wary of demands from developing nations that U.S. laws against dumping and other predatory trade practices be watered down.

Some industries, such as textiles, oppose a deal outright. Others that stand to benefit, such as motion picture and television producers, fear that Washington has already given away too much in hopes of a compromise. Before tackling global trade talks, the White House may first have to cut a deal among its own warring business constituencies.

The prospect of trade conflict should recede, though, as economic growth revives. That hasn't happened yet in Europe and Japan, but activity is picking up in the U.S. And as the recovery here gains momentum, rising prices and climbing interest rates could pose more of a threat. Yet to sustain growth, Clinton will, at a minimum, need the cooperation of the Federal Reserve.

HONEYMOON. While the Fed remains firmly in the hands of the GOP, it is showing little immediate inclination to engage Clinton in battle. Says Fed Governor John P. LaWare: "We all feel the team he has assembled is not a threatening team. We have high regard for them." Even arch-Republican Fed Chairman Alan Greenspan is giving Clinton high marks. The two men hit it off when they met in Little Rock on Dec. 3. Other Fed officials believe that the improving economy should keep relations smooth—for a while. "The Clinton people have gotten the message about where we are in the recovery process," says one senior Fed official, who expects that the new

Administration will downplay the need for economic stimulus to revive growth.

But pessimists warn that the entente between the Fed and the White House may not last the year. Greenspan isn't going to make any promises about holding down rates for Clinton. And rate hikes may come sooner in this recovery than they have in the past. One reason is that this Fed has pledged to continue to

ability was at risk. And even those who believe the economy has room to grow before inflation starts to heat up are cautious. "If credit demand comes back, the fuel is out there for a lot of borrowing and spend excesses among households and businesses," worries one policymaker. Having been through a recession prolonged by the financial excesses of the 1980s, the Fed may feel impelled to raise rates against any sharp rise in borrowing—even before inflation starts to rise.

That means that by next fall—or even earlier, if the economic activity is strong—the Fed will be under pressure to tighten. Caught between two masters—Washington and Wall Street—Greenspan is likely to side with the financial markets, offering up at least a token rate hike in hopes of letting traders see that he won't let inflation get out of control.

IRONCLAD. A credible fiscal policy that is built around a serious, multiyear deficit-reduction plan would take some of the heat off the Fed. And Greenspan and his colleagues would like nothing more than to see such a plan adopted

especially since they know they'll have to face the wrath of congressional Democrats who believe that Fed inaction lengthened and deepened the recession.

The Fed's message to Clinton is clear. It may be able to give him the breathing room he needs, but only if he keeps his stimulus package small and couples it with specific, ironclad budget cuts that will apply in future years. "It's got to be in one bill, with one signature, if the markets are going to believe in the package," insists a top Fed official.

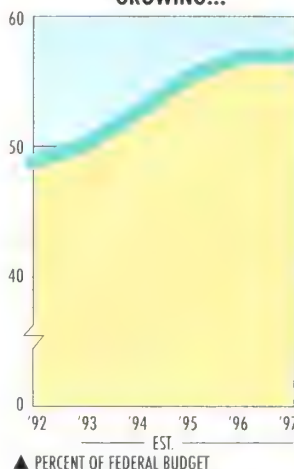
That puts the ball squarely in Clinton's court. And he seems more than receptive. On Dec. 11, Clinton declared that if his tax and investment plans were going "to have credibility, they have to be accompanied by a serious deficit-reduction plan."

With his economic team in place, Clinton has clearly staked out policy priorities for the year to come: investment-oriented tax incentives, more federal spending on human and public infrastructure, and deficit reduction. That's what Clinton promised in the long months on the campaign trail. And for better or worse, that's just what he's preparing to deliver.

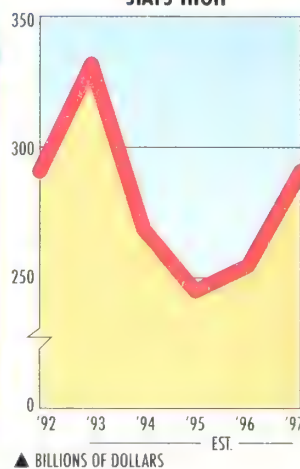
By Howard Gleckman, with Mike McNamee and Paul Magnusson in Washington, Russ Mitchell in San Francisco, and bureau reports

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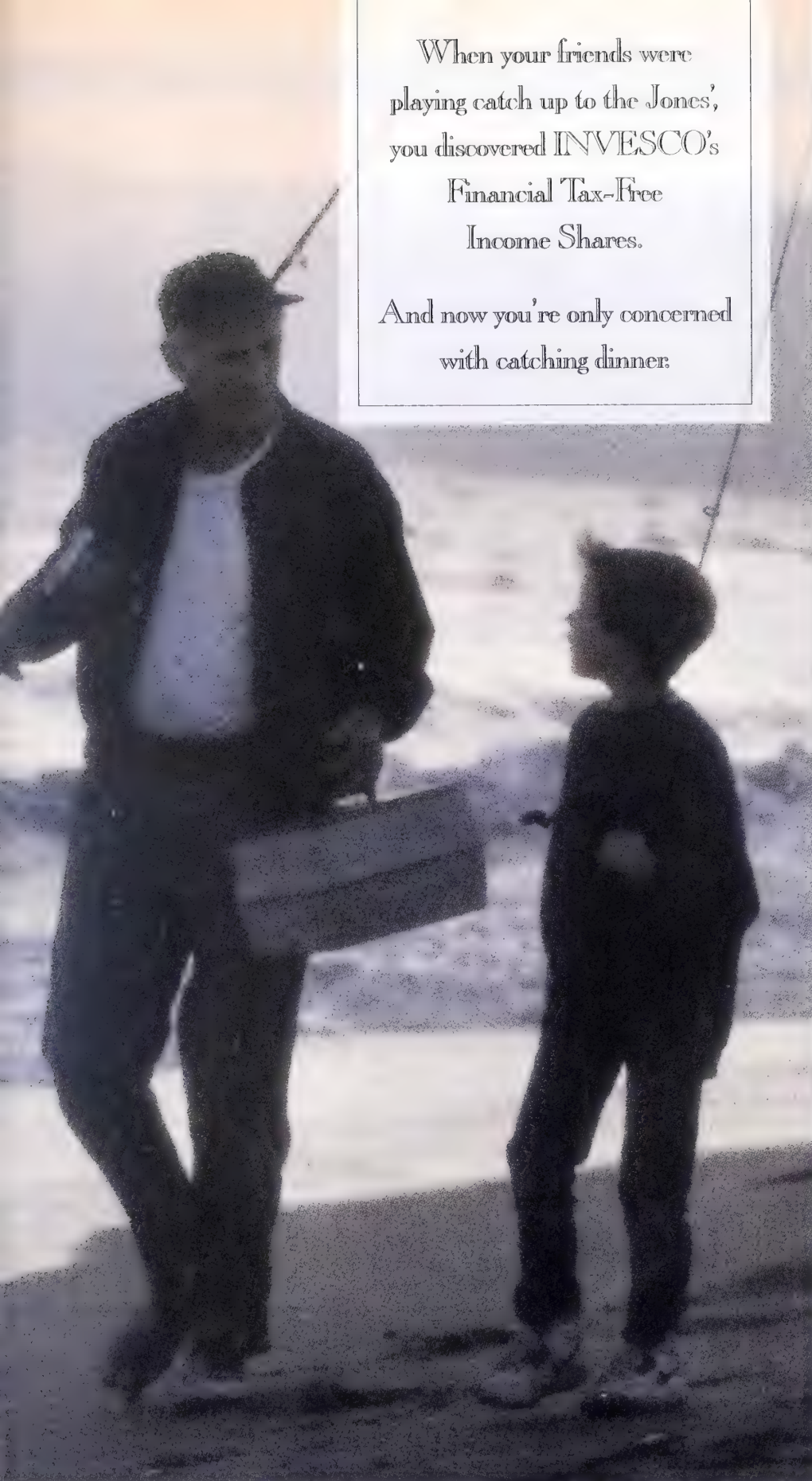
squeeze inflation out of the economy. And it might have to raise short-term rates much faster than the President-elect would like, in order to convince skeptical markets it is serious.

The tension over price stability is already rising within the Fed. As early as last October, two Fed officials opposed any tilt toward further rate cuts, arguing that the Fed's inflation-fighting cred-



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STILL TIME TO REACH FOR THE BRASS RING

The astute investor can make a bundle in this middling year for stocks. Here's how to pick 'em



The two-year-old bull market, which has taken the Dow Jones industrial average up nearly 1,000 points, no longer looks like much of a stampede. Stocks are not cheap. Short-term interest rates are creeping up. The U.S. economic recovery is fitful. The world economy is downright lousy. Add to that all the uncertainties of a new President in the White House who promises to raise at least some taxes. It's enough to send investors to the sidelines.

But don't go just yet. What would a bull market be without lots of worries? There's money to be made in the stock market in 1993. It's just that investors will have to work harder. And stock se-

lection is paramount. Just choosing the right industries to invest in may not be enough, since there are wide disparities in corporate performance within industries: General Motors Corp. is awash in red ink while Chrysler Corp. is on a roll; Southwest Airlines Co. soars while its rivals can't get earnings off the ground.

Sure, the sorts of stocks that dominate the Dow and the Standard & Poor's 500-stock index don't look like any great bargains. The price-earnings ratio, nearly 17 times estimated 1993 earnings on the S&P 500, is historically high. So are measures such as the price-to-book-value ratio, the price-to-cash-flow ratio, and the dividend yield. "By all historical pa-

rameters, there's not a lot of upside to the S&P 500," says Tony Kreisel, co-portfolio manager for the \$4 billion Putnam Fund for Growth & Income.

But you can't judge investments in a vacuum. In an environment where yields on alternatives to stocks are low or nonexistent, stocks can still be mighty attractive. Certainly, individual investors who've been rolling out of bank CDs and into equities, think so. The yield on the S&P 500 is higher than what banks or money-market mutual funds are paying. Foreigners, too, are upbeat on U.S. stocks as they look for continued strength in the U.S. economy. Domestic money managers are cautiously optimistic but not wildly bullish.

NARROW RANGE. Wall Street's expectations for the stock market are modest. Steven Einhorn of Goldman, Sachs & Co. has about the most bullish forecast for the S&P 500: a 12% to 15% total return. David Shulman of Salomon Brothers Inc. is on the low end: a scant 6.5%, almost a repeat of 1992's performance.

To make any kind of positive forecast for 1993, analysts are bucking history. The first years of new Presidential Administrations are typically down years for stocks. David McHugh of Northern Investment Counselors also notes that cyclical bear markets take place every three or four years—and the last one was in 1990. A bear market, he says, "would not be out of character."

The pros are less than fired up about stocks because they see no further declines in interest rates or an explosion in corporate profits. With short-term rates near 30-year lows and some signs of renewed life in the economy, the Federal Reserve's easy-money days are over. From here on out, the Fed will more likely be neutral than easy, especially since President Bill Clinton and Congress will probably provide some fiscal stimulus to accelerate economic growth. Long-term interest rates could fall because inflation is in check, but not enough to trigger a major revaluation of stock prices.

On the earnings front, the market is already anticipating about a 20% earnings gain for the S&P 500. It will take

much larger increases in profits to drive prices very much higher. That's going to be tough, especially since the multinational companies that dominate the big-stock averages will also be under pressure—coping with the recession in Europe, which will cost them sales, and a stronger dollar, which will eat away at profits. Then there's FAS 106, the accounting rule that makes companies put their future retiree health-benefit costs on their balance sheets. Although the rule change is factored into the earnings forecasts, Salomon's Shulman thinks most investors have underestimated the cost—and could face some unpleasant surprises.

The change in power in the White House may be a onevent for the market. Sure, stocks sold off in early October when it became clear that George Bush would not overtake Clinton. Then, Wall Street started ranking out stock tips on environmental and infrastructure stocks expected to do well with a more activist hand at the helm. But with the market up 200 points from the October bottom, the Clinton rally may already be history. Wall Street will keep a sharp eye on Clinton's moves, but given the mainstream look of the economic team, investors are not expecting anything dramatic. Says James L. Gipson of Pacific Financial Research Inc.: "Any changes Clinton makes will be modest and on the fringes."

This time last year, many on Wall Street were forecasting a 10% to 15% return from stocks in 1992. So far, they've fallen well short of the mark. Led by economically sensitive, or "cyclical," stocks, the Dow reached 3400 in May and again in July—a 7% gain. But during the summer, the economy seemed to sputter again, and the cyclicals swooned. The Dow was further dragged down by the deep-seated woes at GM, IBM, and Westinghouse Electric, which together knocked more than 100 points off the average. And for a short time in October, the Dow was below its 1991 close. At this point, it's up a slim 1.7% for the year, or less than 7% with dividends included.

TRIED-AND-TRUE. The S&P 500 is on high ground, but its year-to-date return is still only a smidgen above the Dow. While cyclicals dominate the Dow, growth stocks have a much greater impact on the S&P 500. So the S&P lagged behind earlier in the year, when cyclicals surged, but it's looking far better now, after investors returned to some of the

STOCKS WITH A 'SPIN'

	Recent price	P-E ratio*	Dividend yield
AUTOMATIC DATA PROCESSING	52 $\frac{1}{4}$	25	0.9%
As small businesses prosper, they will need the payroll and other services that ADP provides			
FORD	41 $\frac{3}{8}$	13	3.9
Low-cost producer, can hit it big with only a modest economic pickup			
GOODYEAR	69 $\frac{3}{4}$	11	1.4
With the global industry capacity shrinking and raw-materials prices low, profit margins are sure to widen			
INGERSOLL-RAND	30	16	2.3
Machinery maker should cash in as capital spending increases			
INTERPUBLIC GROUP	34 $\frac{1}{4}$	20	1.3
Best management and balance sheet in advertising industry			
MEAD	39 $\frac{7}{8}$	14	2.5
New capacity and cost-cutting bode well for paper company			
ROCKWELL INTERNATIONAL	28 $\frac{1}{8}$	12	3.3
Conglomerate with little debt is buying back stock with excess cash			

*Based on 1993 IBES earnings estimates

DATA: BW INTERVIEWS WITH PORTFOLIO MANAGERS AND ANALYSTS

tried-and-true growth stocks. Superpower retailer Wal-Mart Stores Inc., down about 8% in June, is now up about 6.7% for the year.

Not only has the market's gain been modest, so has its volatility. Big price swings have been rare. The market dropped more than 100 points during the day on Oct. 5 but rebounded sharply before the closing bell.

Although the stock market looks placid, there are plenty of positive developments going on below the surface. For starters, individual investors continue to return to the stock market, mainly by purchasing mutual funds. The funds are

fueling a boom in new stock offerings, and that's building a cushion of sorely needed equity under Corporate America. So far this year, corporations have raised \$69.4 billion in equity, including \$37.4 billion in initial public offerings, according to Securities Data Co.

FLYING BACK. Foreign investors, who've been net sellers of U.S. equities for several years, are starting to tiptoe back. "After endless deferred hopes, we are much more confident in the U.S. economy," says Joe Scott Plummer, managing director of Martin Currie Ltd., which manages \$4 billion in global portfolios from Edinburgh. Plummer recently doubled his U.S. holdings to 30% by selling British and European stocks. Takashi Yamaguchi,

director of Seiyu Investment Management Inc., also plans to increase purchases of U.S. equities for much the same reason—poor prospects elsewhere.

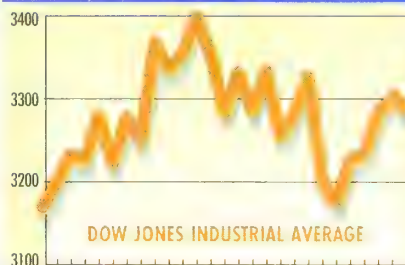
In searching for stocks for the new year, many analysts and portfolio managers are leaning toward cyclicals. "The cost of capital is way down, and so is the cost of labor," says Putnam's Kreisel, whose stock recommendations include manufacturers such as Allied-Signal, Dana, and Rockwell International. Thomas M. Keresey of Palm Beach Investment Advisers Inc. is buying cyclicals such as Ingersoll-Rand, Lukens Steel, and Nucor, but he's not ready to dump winners such as Home Depot Inc. and Wal-Mart.

Still, since the economic recovery will be modest, most pros want cyclicals that fill a niche or have some special traits that distinguish them—stocks with a "spin" (table). Take, for instance, Interpublic Group of Cos. Inc. The worldwide advertising giant came through the slump better than its competitors, and its balance sheet is tops. "Interpublic is best positioned to profit from a rebound in advertising," says Northern's McHugh. Likewise, Shulman tells clients to buy Ford Motor Co., which is the U.S. auto industry's "low-cost producer—Ford doesn't need 4% economic growth to make money."

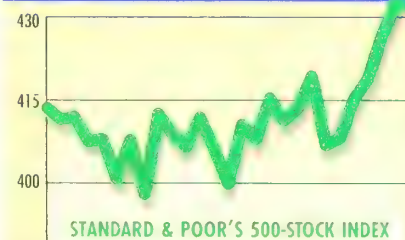
Nor do most investors. With low inflation and a slowly improving economy, it may be time to give stocks another whirl around the dance floor, albeit to a slower tempo. The bull market, it turns out, has a lot in common with aging baby boomers: too old to rock 'n' roll, too young to die.

By Jeffrey M. Laderman in New York, with bureau reports

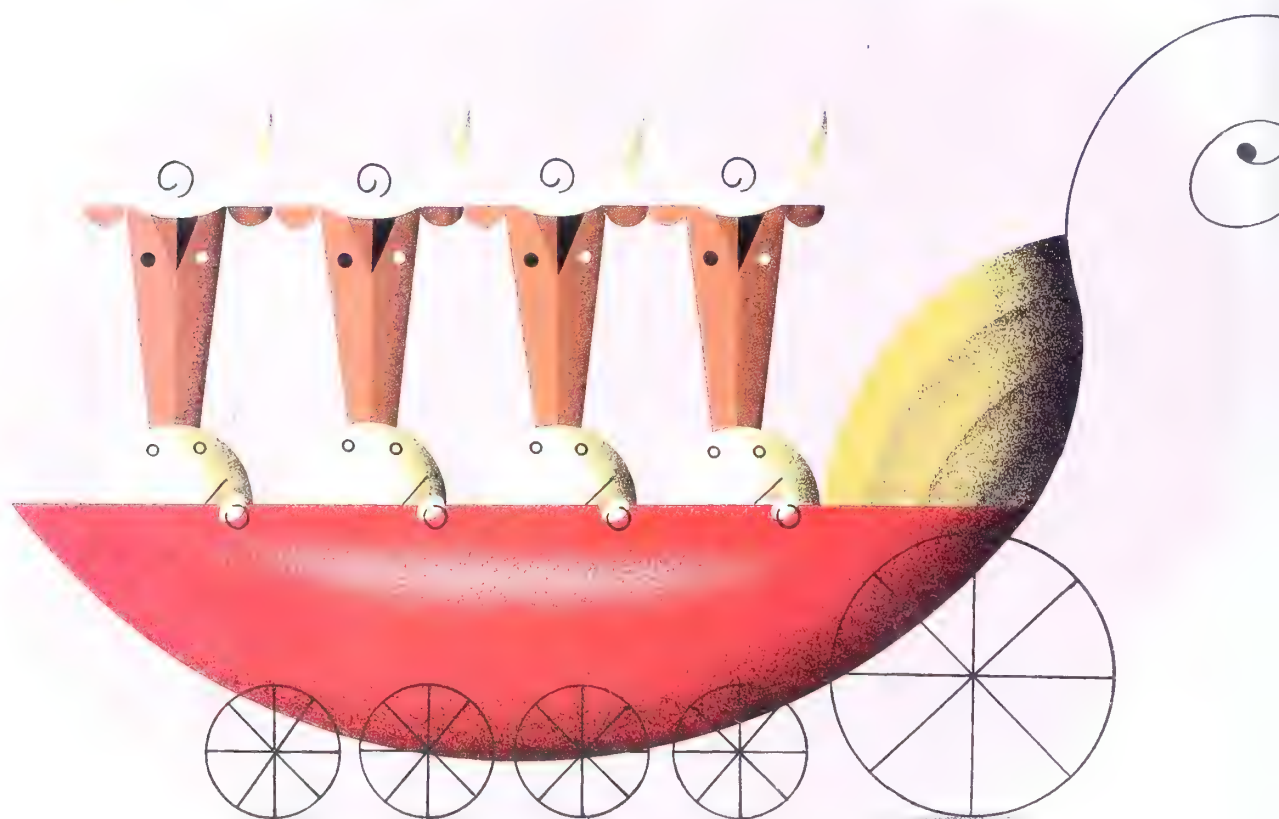
THE DOW'S BIG MOVE CAME EARLY...



...WHILE THE S&P 500 IS A LATE BLOOMER



DEC. 31, 1991 DEC. 15, 1992
DATA: BRIDGE INFORMATION SYSTEMS INC.



THIS PARTY WILL KEEP ON ROCKING

Is a correction coming? Probably. But the fundamentals are sound and the risks low

For investors in small-capitalization stocks, too much good news can be very, very bad. Euphoria is the great enemy of a small-cap rally, because overheated secondaries have a way of crashing down. Well, the small caps certainly have been generating great tidings of late. They've beaten the market for two straight years and have climbed at almost three times the rate of the overall market since Oct. 1. But is that good news too good? Are small caps leaders—or goners?

This time, it seems, there's no real reason to be frightened by all those good tidings. True, a correction may be in the cards during the weeks ahead. Market technicians argue persuasively

that the charts bespeak a transitory interruption in the rally. Overheated sectors in particular—especially biotechnology stocks—may well give up much of their gains. But overall, any such correction would be a buying opportunity, because the fundamental case for small caps remains sound. "I firmly believe that the small-cap rally has a couple of more years to go," asserts Claudia E. Mott, a quantitative analyst at Prudential Securities Inc. and a leading small-cap watcher.

Here are some of the arguments that are being advanced in favor of small-cap stocks:

■ **Cycles.** The assumption is that small-cap rallies run in cycles, and that the

current one, which began in November 1990, should have traits paralleling its predecessors. If so, then the current festivities are likely to be quite lengthy. Mott observes that the average small-cap cycle since the 1930s has lasted 5.5 years—never less than four years—and has brought forth an annual average return of 29%, 13 percentage points better than the Standard & Poor's 500-stock index. The mother of all secondary rallies was the most recent—a 1975-83 extravaganza in which small caps enjoyed an average annual return of 27.8%, beating the S&P 500 by 11.3 percentage points.

The cyclical scenario has a plausible explanation for the miasma that beset

small-cap stocks earlier this year: It was a correction, albeit one of several that are likely to cast a shadow over the small-cap landscape before the cycle runs its course. This year's correction lasted seven months—quite a bit longer than the 3.8-month average for the corrections that beset the small caps during the 1975-83 rally. What those corrections lacked in length they more than made up for in number—there were nine of them. Likewise, there were six corrections during the 1963-68 small-cap rally, and they averaged five months each.

Valuations. Small-cap stocks, despite their recent runup, are still cheap. According to Mott, small-cap stocks ordinarily trade at a price-earnings ratio 1.2 times the p-e of the S&P 500. When small-cap stocks rise to huge premiums over the S&P, it is often a sign that the small-cap rally is about to end. In 1983, when the last small-cap rally ended, small-cap stocks were trading at 1.4 times the average p-e of the S&P 500. By contrast, today's small caps are at about 0.9 times the market's p-e.

Clinton. The statistical-history arguments are amply supplemented by another event in recent history—the election of Bill Clinton. It's no coincidence that the rally in small caps began at a time when Clinton's election seemed assured, and the reasoning now, among even the staunchest Republican investors, is that Clinton is a kind of Democratic castor oil—difficult to swallow, but basically a plus for small-cap stocks. Edward M. Kerschner, chief investment strategist at PaineWebber Inc., observes that since new job growth typically comes from small businesses, it logically follows that Clinton must promote growth among small companies to accomplish his job-creation goals. Moreover, Clinton's proposals for a nationwide network of 100 community development banks and 170 "regional technology transfer centers" could breathe new life into a range of small public companies and perhaps even give high-tech stocks a second wind. Small-cap bulls are also looking for a capital-gains rate cut targeted toward small business and an investment tax credit.

The health mess. FAS 106, the new accounting standards for retiree health benefits, will hurt large-cap companies far more than small ones. And then there's Clinton's proposal for expanded



PRUDENTIAL'S MOTT: TWO MORE YEARS OF STRENGTH

health-care benefits. True, some analysts have maintained that Clinton's health-care proposals would wreak havoc on small companies. But Kerschner believes that the hardest hit would be private companies—the tiniest "mom and pop" outfits, which often compete with small public companies.

■ **Europe.** The America-first argument comes in handy for small-cap stocks when foreign economies turn sour. Sure enough, the recent malaise in Europe is being trotted out as a reason for investing in small-cap stocks. The reasoning is that small-cap stocks are less likely than large ones to be exposed to the economic and monetary malaise that besets Europe. Analysts note that 45% of the S&P 500's profits are derived from foreign operations, and that 60% of those overseas profits come from Europe. Small-cap companies tend to serve domestic markets and have little or no foreign entanglements. In 1991, Mott notes, 29% of small-cap companies reported some foreign pretax income, versus 55% for large-cap companies.

■ **Mutual-fund cash.** High mutual-fund

gist at Cowen & Co.

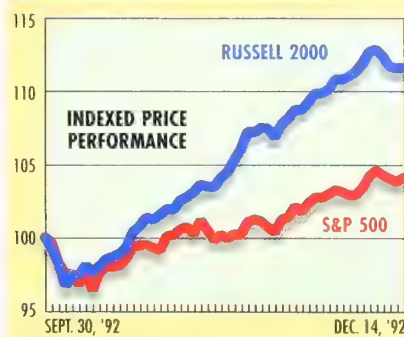
If you're planning to let some of your own funds flow into small-cap stocks, the best strategy is to sprinkle the money into the market, rather than throwing it in as one lump sum. Even if the pundits are correct, the likelihood is strong that some sort of correction is in the offing. Robert S. Robbins, a market strategist at the Robinson Humphrey Co. in Atlanta, is bullish on small caps over the long term, but he believes that a correction could easily cough up the gains that have been realized in recent weeks.

So, buying on a correction is a good strategy. Ditto for buying into a small-cap mutual fund as the best way of latching onto a broad market swing. But if you plan to take a plunge into individual stocks, stay away from overheated sectors, particularly biotechnology stocks. John Ballen, portfolio manager of MFS Lifetime Emerging Growth Fund, is buying economically sensitive stocks, such as software companies—System Software Associates Inc. and Autodesk among them—on the theory that such companies will ride an economic rebound. By the same token, he is buying into restaurant companies, such as International House of Pancakes Inc. and Applebee's International Inc. If p-e ratios expand, Ballen predicts, small-cap stocks could climb by as much as 20% in the year ahead.

That's a heady prospect, particularly when tamer forms of investment are yielding 3% a year or less. Small-cap stocks have historically given investors significant rewards, with proportionally higher risks. Rarely have the rewards seemed greater, or the risks less daunting. And they should stay that way—until the inevitable day when investors begin to like small caps too much.

By Gary Weiss in New York

SMALL-CAP STOCKS ARE SOARING



▲ INDEX: SEPT. 30, 1992=100

DATA: BRIDGE INFORMATION SYSTEMS INC.

BE
INNOVATIVE
OR
BEGONE.

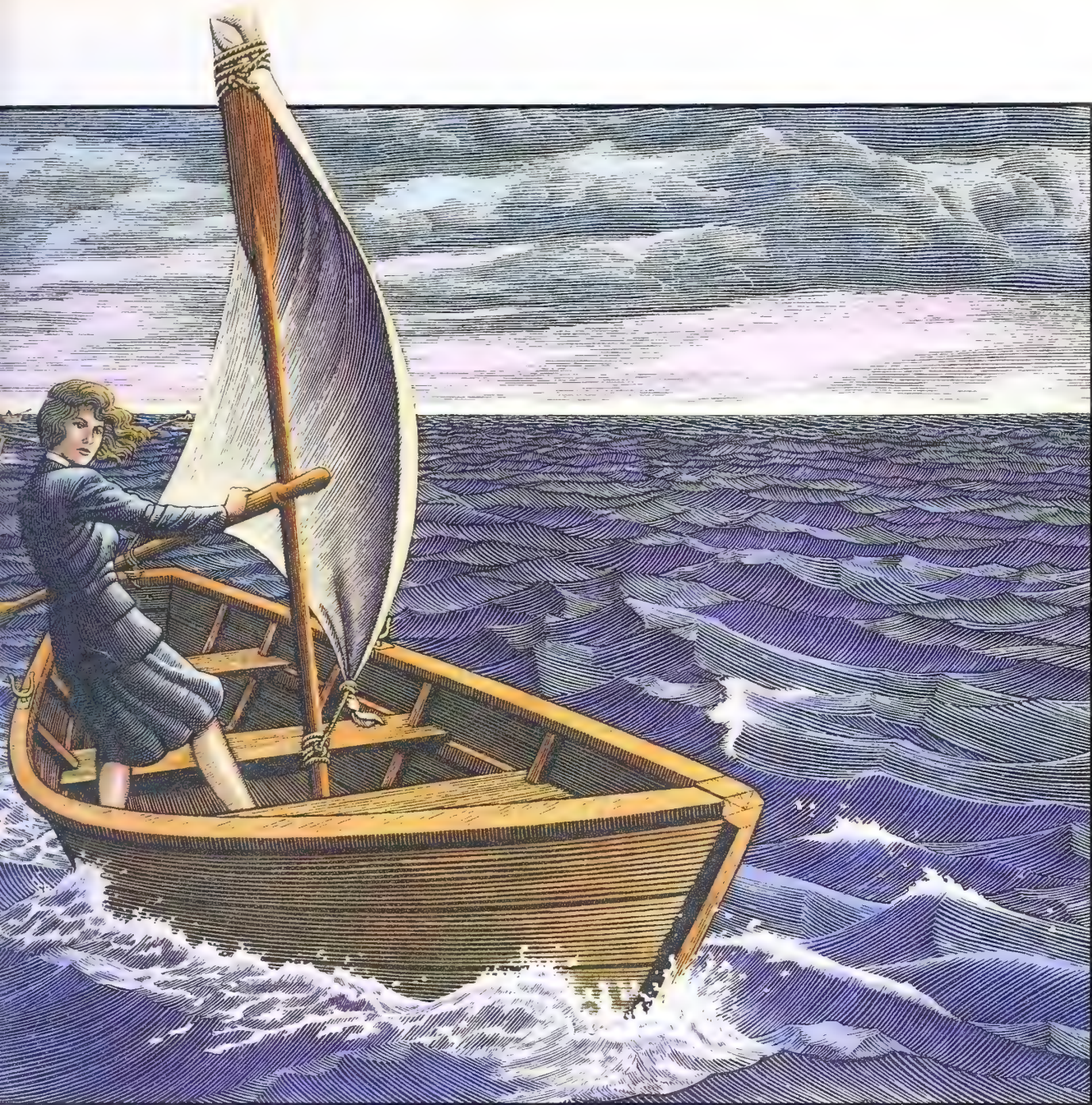
It's a challenge to the competition and a work ethic here at Chemical Banking Corporation.

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knowledge our people use to meet clients' financial needs.

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WHERE THE SHARPSHOOTERS ARE SETTING THEIR SIGHTS

Hot plays for the year ahead from a pack of gung-ho stock-pickers

TRANSATLANTIC IS CRUISING

A number of big players in property-and-casualty insurance, such as Transamerica and Continental Reinsurance, have exited this particularly troubled segment of the industry. So why is the stock of Transatlantic Holdings, a worldwide provider of property-and-casualty reinsurance, on the rise? Trading at \$29 a share in June, the stock has hit 51 despite a big drop in Transatlantic's third-quarter earnings.

"Two things have turned the company into an attractive play in the otherwise dismal P&C business," says investment manager Graham Tanaka of Tanaka Capital Management. The probability that more insurers and reinsurers in the U.S. and overseas will leave the business should greatly brighten Transatlantic's prospects. Tanaka notes that the insurer hasn't chased after the kinds of risky business that others have. So the company has kept its balance sheet clean.

Take the problems at Lloyd's of London, which posted \$4.7 billion in losses for 1988 through 1989. Analysts believe Lloyd's capacity for underwriting risks has diminished as a result. These analysts expect more losses because of Lloyd's exposure to recent catastrophes, such as Hurricane Andrew. Tanaka notes that Transatlantic competes directly with Lloyd's in certain insurance lines in London and the U.S.

The other reason for Tanaka's bullishness: "The cycle is turning up for the industry." With Transatlantic's underwriting capacity "substantially unimpaired," he says, it should gain from any business upturn. Clients renew their policies in January, "most likely at higher rates," Tanaka notes. With fewer reinsurers and an increased demand for insurance protection—at higher rates—he believes Transatlantic will be in the catbird seat.

So Tanaka expects 1993 and 1994 to be gangbuster years for Transatlantic. He sees earnings of \$4 a share in 1993

and \$5 in 1994, vs. an estimated \$2.70 for 1992. Tanaka sees no reason why Transatlantic shouldn't trade at a price-earnings ratio of 15, which would mean a stock price of \$75 a share in 18 to 24 months.

There's more: Transatlantic is 44% owned by insurance giant American International Group. It may end up buying more shares of Transatlantic, some pros say, as the four other Transatlantic founding shareholders—Metropolitan Life Insurance, Swiss Reinsurance, Daido Mutual Life Insurance, and Compagnie Financière, which collectively own 1.5 million shares, bow out of the company. Some 50% of Transatlantic's business comes from AIG. The stock is apt to jump on any news that AIG is buying more shares.

THE LATEST TWIST FROM RAY DIRKS

One of the more controversial pros on Wall Street, Ray Dirks, is active and thriving. Widely remembered for his exposé in 1973 of Equity Funding, an insurance company that was found to be cooking its books, Dirks now heads his own research outfit with nearly 60 analysts. His firm's forte: Scouting for winners among the

trove of new issues and little-known over-the-counter stocks. He's proud of having called six new issues that zoomed more than 100 times in a period of two to seven years. Among them: Geico, Key Pharmaceutical, and Presidential Life.

So what's his latest rave? Dirks is convinced that CliniCorp, the only publicly traded company in the \$10 billion chiropractic industry, will be his next giant winner. It went public in January at 6½ and is now up to 19. But Dirks thinks the company, which has been acquiring clinics around the country, still has a long stretch of growth ahead. He sees it posting sales of \$50 million in 1993 and \$300 million in 1994, vs. current sales of \$25 million.

Analyst Mike LeConey of Ray Dirks Research notes that a Rand study supports the "appropriateness" of chiropractic back manipulation to relieve lower-back pain.

CliniCorp has agreed to acquire 104 chiropractic clinics in eight states, including Florida, New Mexico, and Texas, with estimated revenues of \$44 million. CliniCorp already owns 20 clinics in Texas and Florida, in addition to 15 clinics in the Dallas-Fort Worth area that CliniCorp is scheduled to acquire.

The company has yet to make money, but Dirks thinks it will be modestly in the black in the year ending May 31, 1993, and then earn \$5 a share in fiscal 1994. Never one to understate, Dirks sees CliniCorp as a \$150 stock, based on a p-e of 30 for his 1994 estimate.

TRANSATLANTIC HOLDINGS IS ON THE UPSWING



DATA: BRIDGE INFORMATION SYSTEMS INC

STALKING GROWTH WITH DREYFUS

Can a person who has been a Wall Street economist all his life translate macroeconomic thinking into stock-picking? Richard Hoey thinks so—and does. Now chief economist at Dreyfus, Hoey has taken on the added task of money manager and president of Dreyfus Growth & Income Fund. So far, Hoey has scored very well.

He has built the fund's assets from \$8 million at the start of the year to

\$120 million. Net asset value has gained some 17% this year, vs. 3% for the average growth and income fund.

Hoey's two newest stock picks: Roadway Services, the nation's third-largest general freight motor carrier, which he believes will benefit substantially when the economy heats up, and Endosonics, a new company that developed and manufactures a tiny, patented, computer-driven catheter for cardiovascular surgery.

Roadway, now at 73, has been in the fast lane since August, when it was at 58. No matter, says Hoey, who sees the stock driving up to 85 in a year. Although Roadway is a stock that's sensitive to the economic cycle, "the company's growth ahead is almost assured, and this has attracted growth-stock investors," he adds.

Endosonics is a new issue that went public in March at 15 a share. "I favor new issues that have superior products or technology whose stock has come down from its IPO price," says Hoey, who has been buying Endosonics since it dropped to 6 in July. Now, it's at 9½, and Hoey sees the stock climbing to the mid-teens.

WHERE FRONTIER IS PANNING FOR GOLD

Money manager Grace Fey thinks the Clinton Cabinet and White House appointments have helped create a mighty favorable environment for the stock market. So the executive vice-president and portfolio manager at Frontier Capital Management, which steers assets of \$1.3 billion, has turned gung-ho on stocks.

Fey assumes that the budget deficit won't rise much as the economy perks up and that inflation and interest rates will remain stable. Under these conditions, she believes stocks closely linked to restructuring, consumer optimism, health care, and technology will be among the smart gainers over the next three to five years.

Among restructuring companies, Fey's pick is Allied-Signal, a conglomerate that has been selling off its marginal and unprofitable assets. While Allied hasn't been a growth stock, Fey believes the company will be a fast grower in the years ahead once it completes its restructuring. She sees earnings of \$3.95 a share for 1992 and \$4.75 for 1993, up from 1991's \$2.50. It's now trading at \$58 a share, and Fey believes the stock will hit 80 in a year.

Among consumer-sensitive stocks, Fey is high on Dillard Department Stores, which has climbed from 32 in



FEY: KEEN ON CLINTON'S HIRES

early July to 47 today. She's convinced that it has further growth ahead. "We aren't looking for a home run," she says, "but the stock is worth much more."

In health care, Fey thinks U.S. Healthcare is the stock to buy. A major provider of health-care services, the company "is a well-managed HMO with strong cost-control systems." Fey expects earnings to jump to \$2.20 a share in 1993 from an estimated \$1.78 in 1992. It's now at 44, and Fey expects the stock to climb to 55 in a year.

Microsoft is Fey's favorite among the high techs, largely because it's well-positioned as a fast grower in a niche market. "This stock is not for the faint of heart, because it tends to move in big spurts, but it's a great buy on dips," she says. Fey expects the stock, now at 87, to hit the 110-to-115 range. She sees earnings of \$4.10 a share in 1993, up from 1992's estimated \$3.10.

ROBUST PROGNOSIS FOR A BLOOD TEST

The company named i-STAT is quite an eye-catcher, not only because of its unusual name but because of its product—a portable, handheld device called Portable Clinical Analyzer that uses a disposable cartridge to perform instant blood tests. "It's the kind of a still-unknown company with a product that could be a blockbuster," says one New York fund manager.

In a 90-second procedure, i-STAT's analyzer performs six of the most commonly ordered blood tests, including measures of urea nitrogen, which is crucial in detecting kidney impairment; hematocrit, an indicator of the body's

state of hydration or severe blood loss; and glucose. It's already approved by the Food & Drug Administration.

Initially offered to the public at 18½ on Feb. 26, 1992, the stock tumbled to 9 in late October. It has since recovered and is now at 13. Doug Clark, a portfolio manager at Dreyfus, believes the stock is a valuable long-term holding because the i-STAT system will be a big cost-saver for patients, hospitals, and health-care providers. The company's goal is to become the standard of care for routine blood analysis.

"The i-STAT system is a classic razor-blade product," notes analyst Stephen Handley of Smith Barney, Harris Upham. He says the cartridge, which sells for \$9.99, is a single-use item that could be in big demand when i-STAT begins to catch on. The product is based on proprietary biosensor technology using semiconductors and electrochemistry. Handley expects the company to be in the red for the next two years, and he sees earnings of \$1.30 a share in 1994.

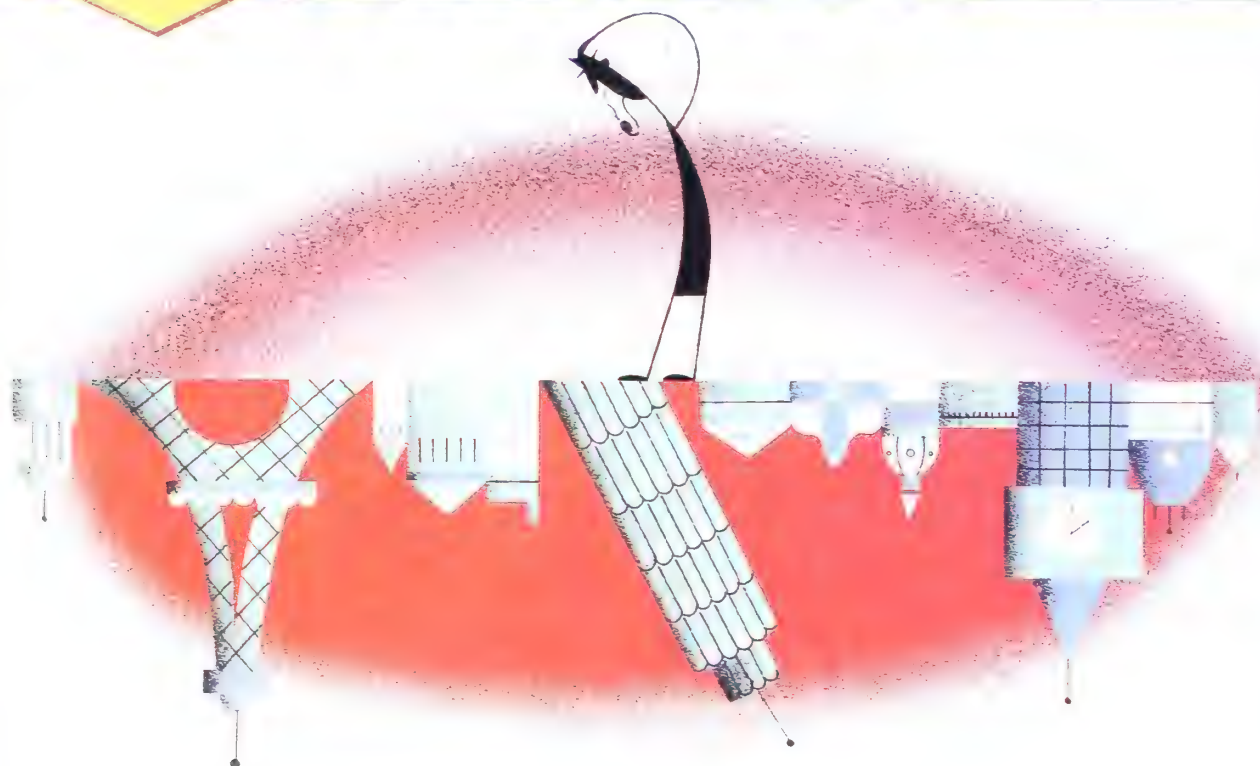
AN END TO HIGH-HEEL HELL?

Why would anybody bother with Langer Biomechanics Group? That's what people are likely to ask when they find that several smart investors have put money into this otherwise-obscure maker of orthotic products.

Donald Cecil, founder of Cumberland Associates, a New York investor group, holds a 7.8% stake, and Walsh, Greenwood, a Wall Street firm that takes big positions in stocks, owns 5.3%. And Louis Petti, vice-president for U.S. Surgical, has a 5.9% interest. What's the scoop?

"For a small, unknown company, Langer is an interesting stock play," says investment strategist Jerry Ballan of Farnestock. One attraction: a new product, DressFlex, promises to be a gigantic hit. It's an orthotic device designed to do away with the pain of women's high-heeled shoes. The contoured mold changes the posture of the foot inside the shoe.

But the real kick, says Ballan, is the buyout angle. He thinks new management, which won a proxy fight in 1991, is now ready to sell Langer to a company with deep pockets—the better to market Langer's products. Whispers are that management has talked informally with interested parties, including a medical-device manufacturer. Ballan thinks the stock would be worth \$6 a share in a buyout.



THE BEST EUROPLAYS WILL HAVE AN AMERICAN ACCENT

Currency turmoil has the pros looking for multinationals that do big business in the U.S.

It hit Nick Stevenson just before take-off. On a November visit to the U.S., Warburg Securities Ltd.'s European stockpicker boarded a jammed DC-10 in Boston, heading for Minneapolis. "Here we are heading from cold to absolutely bloody freezing, and the flight is packed to bursting," he recalls. "America is on the move again," he says, "and it's heartening to see the economy getting back in gear."

Indeed, in Europe's financial capitals, investment pros are taking America's better economic news to heart—and portfolio. With the European community's currency system in shambles and recession throwing economic integration into question, money managers are ditching

Europlays in favor of bets on a U.S. upturn and a stronger dollar. Says Eric Elstob, joint managing director of London's Foreign & Colonial Investment Trust PLC: "The outlook for Europe is for a very tough five years."

QUEST FOR DOLLARS. That's quite a mood swing. On Jan. 1, the EC will usher in a free-trading single market that's supposed to deliver prosperity and a big push toward monetary and political

union. Instead, Europeans are preoccupied with the Bundesbank's high interest rates, mounting discord among EC states, and chaos in the former Soviet empire. With corporate earnings expected to be down as much as 15% in many countries and big bankruptcies starting to shake investor confidence, it's no wonder that many European bourses are shrouded in gloom.

Gloom, but hardly doom. Europe still offers an array of ways to stay clear of the turmoil. Many pros have been returning to Britain, Sweden, and other countries that have abandoned their tight links to the German-dominated European Monetary System and have cut interest rates sharply. And all across Europe, investment ad-

HOW THE WORLD'S BOURSES ARE FARING

	Price-earnings ratio	1992 performance*		Price-earnings ratio	1992 performance*	
		In local currency	In dollars		In local currency	In dollars
HONG KONG	14.6	22.2	22.9	NETHERLANDS	12.8	2.9 -0.9
THAILAND	13.5	19.9	18.7	FRANCE	14.9	-0.4 -4.2
SWITZERLAND	15.2	19.4	15.1	GERMANY	14.4	-6.5 -10.0
BRITAIN	18.9	9.0	9.3	CANADA	17.2	-7.0 -15.7
U.S.				AUSTRALIA	20.1	-9.1 -17.2
Standard & Poor's 500	24.0	3.7	3.7	JAPAN	38.2	-22.7 -22.0

*Through Dec. 11

DATA: BARCLAYS DE ZOEETE WEDD SECURITIES LTD. MORGAN STANLEY CAPITAL INTERNATIONAL

isers are searching for multinationals that do a hefty business in the U.S. and other dollar-bloc countries yet still sell at discount to transatlantic competitors. With the greenback expected to rise an additional 10% in 1993 after climbing 4% since early fall, "it's very important to find exposure to the U.S. economy and the dollar," counsels Michael Young, Merrill Lynch & Co.'s London-based European investment strategist.

Among those in Young's camp is Warburg's Stevenson, who has been buying Dutch brewer Heineken, which generates 35% of its sales in the Western Hemisphere. And Hans Kaufmann, head of research at Zurich's Bank Julius Baer, is gobbling up such local tandbys as Nestlé, Union Bank of Switzerland, insurer Swiss Re, and pharmaceutical giant Roche Holding (table).

Roche alone is a global leader in biotechnology and is likely to see earnings climb 16% in 1993, Kaufmann estimates. Yet its shares are still fetching a modest price-earnings ratio of 12, just half of that of Merck & Co. Even Switzerland's recent rejection of nearly barrier-free trade ties with the EC has failed to shake analysts' enthusiasm in the country's bourses. "Switzerland is a cheap way to play Wall Street," says Michael Hughes, European strategist for Barclays de Zoete Wedd Ltd. in London.

BLOOD SPATTERED. Values also are emerging in Britain, which exited the European currency system during the "bloody Wednesday" shootout with the Bundesbank last Sept. 16. Since then, the London Stock Exchange has ridden sterling's devaluation and a 3-percentage-point cut in interest rates to a record high.

Many British money managers favor conglomerates such as Hanson PLC and BT, whose big U.S. holdings should pay off as the economy recovers. Others like such companies as Allied-Lyons, parent of Dunkin' Donuts and Baskin-Robbins, and Bass, which owns Holiday Inn Worldwide. And arguing that Britain's rate cuts will also spark domestic growth, Frank V. Jennings, managing director of international equities at Mitchell Hutchins Asset Management Inc., is buying such midsize companies as Medeva, a maker of vaccines and other drugs, and Lloyds Chemist, a drug-store chain.

Stockholm's pros are similarly high on their multinationals. The economy is deep in recession, but since November, when the Swedes abandoned efforts to

keep the krona pegged to the mark and other EC currencies, the Stockholm exchange has risen 20%. That's drawing cash into Astra, a pharmaceutical maker with a new anti-ulcer drug, as well as appliance maker Electrolux. But Bo Zethraeus, head of the trading division at Stockholm brokerage Enskilda Fondkommission, is especially high on beleaguered auto maker Volvo. A devalued currency and the U.S. recovery should help exports of Volvo's racy new 850 model.

Apart from dollar plays, values seem few and far between in this winter of European discontent. Still, most experts figure the Bundesbank will start slash-

chief investment officer at the Chase Manhattan Private Bank.

Even if the French don't break with Germany, they still could come out ahead. Should the Bundesbank lower its rates, France would immediately follow suit. So Richardson is already buying Alcatel Alsthom, the telecommunications and engineering group. And Dominique Bourjao, head of research at Paris-based Detroyat Associates, is going into insurer Axa. In addition to benefiting from lower rates at home, she notes, Axa's 49% stake in the Equitable Group gives it a big chance to benefit from the U.S. recovery.

Bourjao is also buying Société Bie, the maker of disposable pens, lighters, and shavers, with an eye toward its low debt, expansion into South America, and expectations of 15% profit growth in 1993. And many pros think a devaluation of the franc would boost LVMH Moët Hennessy Louis Vuitton, the gilt-edged luxury-goods exporter.

Some southern members of the EC have already followed Britain and Spain in devaluing their currencies and lowering interest rates. Devaluations of the Spanish peseta totaling 11% prompt Salomon Brothers Inc. analyst Inigo Leccubari to favor electric utility Endesa and refiner Repsol. And Hughes of Barclays de Zoete Wedd says that the lira's 6% slide in September has brightened prospects for clothier Benetton Group, which is focusing on developing markets in South America and Africa.

The fishing gets trickier in Germany's murky waters, where exporters are mired in recession and capital-goods makers are suffering a steep falloff in orders. But Karl Dietrich Graeff, investment specialist at Commerzbank, is counting on Deutsche Pfandbriefanstalt, a big mortgage lender. And despite stresses in Germany's financial sector, many stock-pickers still find solace in such ultrablue chips as Deutsche Bank and insurer Allianz.

In what is shaping up as a rough-and-tumble year in Europe, the big question will be whether after devaluations, political shifts, and reassessments of Europe's unity march, the Continent's economies can recover their lost momentum. That kind of uncertainty won't keep the pros out of European equities. But it's already leading them to favor companies with one foot firmly planted on the other side of the Atlantic.

By Bill Javetski in Paris, with William Glasgall in New York

A EUROPEAN PORTFOLIO

Company/Country	Price per share*	1992 performance	
		In local currency	In dollars
ROCHE HOLDING Switzerland Global biotech leader	\$2,840.00	53.4%	48.0%
BIC France No debt, lots of cash, and global ambitions	166.00	30.9	27.2
AXA France Now a power in U.S. life insurance	181.00	27.7	24.0
NESTLE Switzerland Food giant with big U.S. exposure	784.00	26.6	22.0
SOCIETE GENERALE France Could benefit from falling interest rates	107.00	23.2	19.8
BENETTON GROUP Italy Competitiveness rising as lira falls	9.25	21.5	-0.2
CABLE & WIRELESS Britain Durable carrier with big overseas profits	10.60	14.9	-4.8
AHOLD The Netherlands Coming on strong with U.S. supermarkets	48.30	9.0	5.9
VOLVO Sweden Cutting costs and rolling out new models	49.00	4.7	-14.0
SIEMENS Germany Bulwark against German recession	372.00	-6.4	-9.2

*Dec. 15 DATA: BW SURVEY OF FUND MANAGERS AND ANALYSTS. BRIDGE INFORMATION SYSTEMS INC.

ing interest rates by the second quarter. "It's inevitable that rates will come down—substantially down—in the course of 1993," says George Magnus, Warburg's chief international economist. By yearend, he says, German short-term rates could be at 6%, 2.5 percentage points below where they are now.

'RAGING BUY.' France may not be able to wait for the Germans to move on rates, however. So far, the French have kept the franc tightly pegged to the mark to preserve EC unity and the exchange-rate system. But that fidelity is costing the French dearly in lost growth. With legislative elections looming in March and speculative attacks on the franc increasing, many believe the French will soon devalue their currency on their own. If that happens, interest rates could fall 3 or 4 percentage points and make French stocks "one of the raging buys of the marketplace," says Mark Richardson,

ASIA IS LOOKING INWARD, AND ITS PROSPECTS ARE LOOKING UP

Despite Japan's woes and Hong Kong's jitters, it's still hot around the edges of the Pacific Rim

Remember the 1980s, when Tokyo stocks rose like steam from a hot bowl of noodles and other Asian bourses almost automatically followed suit? Those days are long gone. But despite political and economic tumult in many Pacific markets, the region still merits a good, hard look. With its vibrant economies, the Pacific remains the home of some of the fastest-growing companies anywhere on earth.

While tensions between London and Beijing have buffeted Hong Kong's stock market in recent weeks, booming China still provides a huge market for manufacturers in the British colony and throughout the region. All across Asia, trade is

expanding rapidly, as exporters, looking to diversify beyond North America and Europe, focus more on meeting the needs of their burgeoning home region.

Even in recession-bound Japan, manufacturers are still well-oiled, formidable competitors. Interest rates appear poised for another fall, and the Japanese government is giving the economy an \$87 billion shot in the arm in any case. So after tumbling 55% since its 1989 peak, Tokyo is starting to win a few adherents, even though price-earnings ratios still average around 40. "We are nearing the end of the Japanese bear market," maintains Michael Bullock, chief investment officer for London-based Morgan Grenfell & Co. "There will be a major bull market in the next 12 to 18 mos."

PLAYING DEFENSE. Bullock and other market-watchers think that might lift the Nikkei stock average from around 18,000 now to 20,000, or even 23,000, by the end of 1993. But watch out along the way. Analysts also caution that Tokyo may be in for one last storm before its

travails are finally over. With banks wallowing in bad debts, consumer sentiment on ice, and inventories bloated, Japanese corporate earnings may fall at least 20% in the fiscal year ending next Mar. 31. That could help push the Nikkei down to 13,000 in the first quarter, says Jeff Bahrenburg, equity strategist at Merrill Lynch Japan Inc.

Still, even Bahrenburg believes Tokyo should be moving higher again by mid-year, especially if the government comes up with another big fiscal-stimulus package to augment the one unveiled in the fall. Already, some Tokyo analysts are predicting that corporate earnings will rise as much as 20% in fiscal 1993. Those

Tokyo may be in for
one last storm,
analysts warn

forecasts have prompted Salomon Brothers Asia Ltd. strategist Keith Donaldson, for instance, to recommend Toshiba Corp., as well as makers of steel chemicals, and paper.

But with the expected recovery still a year away, many other stock-pickers are leaning toward more defensive issues. Bahrenburg, for example, likes Ito-Yokado Co. and Jusco Co., mass-market retailers whose sales are holding up better than those of more upscale chains. Ito-Yokado is refurbishing its 7 Eleven stores in the U.S., while Jusco is taking a Wal-Mart approach at home, targeting midsize cities largely untouched by big retailers.

COLONY JITTERS. Even if the Nikkei fails to live up to the bulls' hopes and remains stuck around current levels, Tokyo stock-pickers still see some value. John Baldwin of Jardine Fleming Securities Ltd., for one, is looking at smaller companies that can take advantage of what little growth spots currently remain in the economy. Motorcycle sales, he notes, have held their own even as car sales have plummeted. But instead of playing Honda Motor Co., which also makes autos, Baldwin favors Showa Manufacturing Co., the principal maker of shock absorbers for Honda's bikes.

Some Tokyo mavens even suggest taking a flyer on a hard-hit stockbroker. With equity-market turnover at its lowest point in 10 years, this might appear downright reckless. But Andrew Ballingal, chief strategist at Barclays de Zoete Wedd Securities (Japan) Ltd., thinks Nomura Securities Co. is worth noting. Plagued by scandals that forced its chairman and president to resign, the nation's No. 1 broker has seen its stock plunge 68% from its 1980s' high. Bu-

If you're looking
for a computer
that will grow
with your needs,
there are basically
only two ways
you can go.

The hard way.

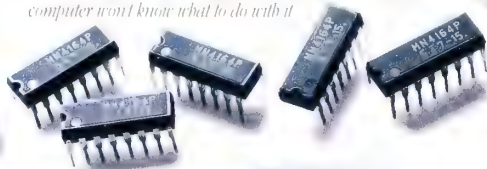


Add networking card, reconfigure your system.

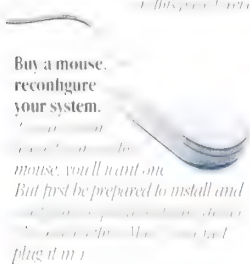


...and add a network card. The means get through the long tedious process of reconfiguring the system. On a Mac, it's just plug 'n' play.

Upgrade your memory, reconfigure your system. Add memory to a Mac, and it reconfigures itself automatically. But add memory to a PC, and you'll almost always have to use a setup program to configure the new memory—or the computer won't know what to do with it.



Add almost anything, reconfigure your system. Expanding your PC's capabilities can be amazingly frustrating. But a Macintosh easily adjusts to whatever extra device you add to it.



Buy a mouse, reconfigure your system.

...to a mouse, you'll want one. But first be prepared to install and reconfigure the mouse. On a Mac, it's just plug it in.



Play and record sounds, reconfigure your system.

Multimedia promises to be the future of computing. To record sound, it'll cost you more than money. On a Mac, it's built in.



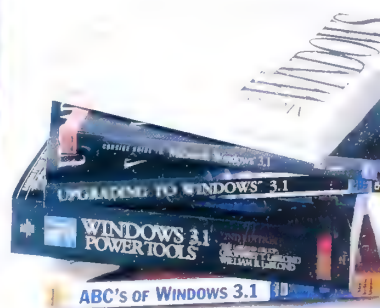
Expand your PC, take two aspirin. Inevitably, you'll want to expand your computer's capabilities by adding extra devices. The more instructions you slog through and switches you fiddle with, the more time it will take. And the more pain reliever you'll need.

Change monitors, reconfigure your system.

Add a new monitor, and you'll have to reconfigure your entire system—or your monitor. On a Mac, it's just plug 'n' play. On a PC, it's a new monitor and a new setup program.

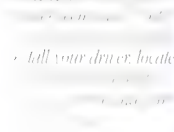


Whoops! When you add something to an existing PC, you may have to reconfigure your system—a process of hardware and software adjustments, which can be complex. On a Mac, it's just plug 'n' play.



Manual labor. Software like Windows purports to make things easier. But the reality is, you'll still spend hours reading manuals just to make it all work—time you could spend doing more useful things with your computer.

Add printer, adjust DIP switches.



On a PC, even adding a simple hard disk can be extraordinarily complicated. You'll probably have to "reconfigure" your system—the time-consuming process of telling your computer what pieces you've added. You may have to edit complex CONFIG.SYS and SYSTEM.INI files, install drivers and fiddle with DIP switches. And, of course, building even a basic network is extremely difficult—what with installing

The easy way.

Macintosh's best and easiest features for easy Networking and serial applications are already built in. File sharing and multi-media capabilities are standard. So is support for up to seven peripherals. When you need more capabilities, you can add them the other way: this Macintosh lets you add them as a new component. A card or even a software download that lets you add the power of LaserWriter and a local hard drive or networked Macintosh to your performance or specialized tasks.



cards and networking software. An Apple Macintosh, on the other hand, knows when you've added a hard drive. Installing a CD-ROM drive or scanner is a matter of plugging in a cable and clicking a couple of buttons. Even installing a network requires nothing more than plugging one Mac into another. It's just one more example of how a Macintosh works in a simple, logical way. So you can, too.



If you know how to use a plug, you know how to expand a Macintosh.



Macintosh has built-in support for color, fonts, and even add-on fonts. Support color in desktop publishing. Or use the built-in fonts from both screens.



Plug in an Apple CD-ROM drive and you'll have access to huge libraries of reference sources, fonts, clip art and video images on CD. (It even supports Kodak's exciting new Photo CD technology.)

Mac gives you professional quality documents even if you're on a student budget. Just plug in an Apple StyleWriter printer.

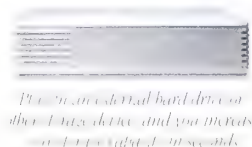


Plug in an Apple Personal LaserWriter NTR, and everyone in your workgroup will have access to the fastest printer in its class. (It works with PCs, too.)

Macintosh has built-in support for hard drive storage via removable disks. Or use an external hard drive.



Plug in an Apple LaserWriter IIx, and everyone on your network will instantly be able to take advantage of the Apple Photograde technology. That's 800 dpi printers costing thousands more for spectacular looking documents.



Plug in an external hard drive or other storage device, and you increase your storage capacity in seconds.



Plug in an Apple OneScanner, and you can add beautiful black-and-white photographs to your documents with one touch of a button. No fussing or fiddling required.



Adds a peripheral to a Mac. It's as easy as using one. Plug it in, click a couple of buttons and get back to work.

For the second consecutive year, J.D. Power and Associates ranked Apple highest among Personal Computer Companies in Customer Satisfaction. And no wonder: whether you're writing a letter or adding a CD-ROM drive, only Macintosh makes it genuinely easy. Giving you the power you really want from a personal computer. The power to be your best.



Ballinal observes that Nomura and other brokers are laying off workers and slashing costs faster than Japan's banks. If Tokyo recovers in 1993, he reasons, commission and underwriting revenues will take a jump.

In Hong Kong, meanwhile, it takes more than an adventurous streak to consider stocks. Reacting to Governor Chris Patten's calls for more democracy in the British colony, the Chinese government shot down the high-flying Hang Seng index in November by threatening to abrogate the Sino-British Joint Declaration on the 1997 return of Hong Kong to China. Worse, it said it might not even honor Hong Kong government contracts when it takes over.

Traders are also worried that the colony's thriving trade with the mainland will suffer if President-elect Clinton blocks extending China's most-favored-nation trading status until Beijing makes human-rights concessions. Still, many traders are hardly giving up on Hong Kong stocks. With the Hang Seng already well off its record of 6447 set on Nov. 12, some traders are looking to move back in if the British reach a compromise with Beijing after Hong Kong's legislature meets in February. "If the political dust settles in a reasonable period," says Joseph Tse, Fidelity Investments' Hong Kong-based senior analyst, "we could see the market rise to 7500."

True, a weak deal with China could still leave Hong Kong vulnerable to future bouts of political jitters. So Tse favors consumer-goods makers that, he says, may be relatively immune to cross-border tensions because they sell to world markets. One of his favorites: Giordano Holdings, a maker of jeans and T-shirts. But at the Chase Manhattan Private Bank, Chief Investment Officer Mark R. Richardson recommends more established issues, including Hongkong & Shanghai Banking and blue-chip conglomerates Swire Pacific and Jardine Matheson Holdings. Others maintain that even though Beijing is opening bourses of its own, Hong Kong remains the safest place to play China's buoyant economy, which is expected to grow by at least 12% in 1993. Mei-shing Chan, Asian equities strategist at Nikko Securities Co., favors Hopewell, a construction company with many large projects under way on the mainland.

MALAY MUSCLE. Thailand has also had its share of political troubles. A springtime coup battered stocks in the first half of 1992, but Thailand returned to civilian government faster than expected, and equities are now up some 20% for the year. With the economy expected to grow 8% in 1993, Chan thinks Thai industry will score a 15% earnings gain

next year. Yet Bangkok stocks are trading at only 13 times estimated earnings, he notes. Among his picks: Siam Cement Co., which is making a nice living off expanding infrastructure spending.

Korea also has a few stocks that might get help from government largess. Seoul plans to spend some \$70 billion over the next five years on roads and other public works. That has Donald S. Lee of Lucky Securities Co. recommending Dong-A Construction Industrial Co., a major civil engineering company. Analysts also hope Korea will get inflation under control in 1993, paving the way for lower interest rates. That

23% in 1992, is due for a turnaround once U.S. demand for PCs picks up. In fact, after falling some 20% in 1992, Taiwan may finally be in for better times in 1993, says Jardine Fleming analyst Christopher Galati. The government is pitching in to help stocks recover, ordering Taiwan's four tightly controlled investment trusts to buy equities and opening the market to more foreign investors. Despite that, Taiwan still is struggling. Run up by much the same speculative explosion that blew Tokyo through the roof, Taipei collapsed in 1990 and remains 71% below its peak.

Australia will also be trying to dig its

A PACIFIC PORTFOLIO

Country	Company	Price per share*	1992 performance	
			In local currency	In dollars
JAPAN	TOSHIBA U.S. recovery will power up exports	\$5.10	-5.5%	-6.2%
	SHIN-ETSU CHEMICAL Silicon supplier looking for semiconductor rebound	12.75	2.0	1.0
	ROHM Leading custom-chip maker at a bargain price	17.18	20.0	-21.0
	AOYAMA TRADING Clothing retailer weathering recession well	65.16	-2.6	-3.4
HONG KONG	GIORDANO HOLDINGS Sportswear maker unscathed by political turmoil	0.55	155.0	155.0
	CHINA LIGHT & POWER Big utility wins plaudits from Beijing	3.91	32.0	32.0
MALAYSIA	KIAN JOO CAN FACTORY Can maker buoyed by thirsty Asian consumers	3.18	1.8	8.7
	SIME DARBY BERHAD Thriving region bolsters big conglomerate	1.85	12.9	20.4
AUSTRALIA	NEWS CORP. Murdoch's media machine still spinning money	20.82	97.4	86.6
	WESTPAC BANKING Recovery in sight for No. 2 Aussie bank	2.06	34.5	40.0

*Dec. 15

DATA: BW SURVEY OF FUND MANAGERS AND ANALYSTS

should help stocks. But uncertainties remain about government policy moves after December's presidential election.

Many stock-pickers like Malaysia instead. With earnings strong and inflation at a modest 4.5%, the Kuala Lumpur Stock Exchange index rose 15% in 1992. Among Malaysia's most efficient exporters is Kian Joo Can Factory, a favorite of Teo Kok Lin at Baring Securities in Kuala Lumpur. With footholds in Vietnam, China, Brunei, and Japan, "Kian Joo is one of the few 'green' stocks in Malaysia," Lin notes. "It will benefit from the move toward recyclable products, such as aluminum cans." Nicholas Ashby of Crosby Research, meanwhile, favors Sime Darby, Malaysia's biggest conglomerate.

Exporters are also the darlings of stock-pickers in Taiwan. Analysts say that computer maker Acer Inc., down

way out of a bad year in 1992. After a stellar performance in 1991—second only to Hong Kong's among the region's markets—Australian equities hit the wall early in 1992, when the economy fell short of expectations. Still, Brad W. Orgill, director of research at Potter Warburg Securities, sees equities rebounding 25% in 1993. The Aussie dollar's 9% drop against the U.S. greenback in 1992 has helped natural-resource exporters, already basking in the benefits of lower interest rates and productivity gains. Among Orgill's favorites: energy-and-steel conglomerate BHP.

Throughout the Pacific Rim, investors will have to be fast on their feet in 1993. Yet the region, as a whole, is on the move. It's hard to ignore that potential.

By Larry Holyoke in Tokyo, with Dave Lindorff in Hong Kong and Jane Hutcheon in Sydney

BETTING ON THE FOUR HORSEMEN

A world full of gloom and doom spells bargains in foreign markets

Scan the globe, and there's bad news almost everywhere you look. Moslems and Hindus are slaughtering each other in India. Yugoslavia is in the grips of civil war. Neo-Nazis are shaking Germany. The President of Brazil has been impeached. Britain and China are playing a grim game of chicken over Hong Kong.

All this turmoil has rocked many of the closed-end country funds that are the easiest ways for individual investors to play foreign markets. A group of 50 U.S.-listed funds tracked by Smith Barney, Harris Upham & Co. analyst Michael T. Porter is down about 2% on the year. The worst performers have been the European funds, down an average of 16%. They have been hit hard by currency volatility, recession, and doubts about the unification of Europe.

While skittish investors are still dumping country funds, some savvy observers see a buying opportunity in all the gloom and doom around the world. Miami-based analyst and money manager Thomas J. Herzfeld, for instance, is stocking up on the India Growth Fund as well as a broad range of other funds. "We buy during riots, earthquakes, coups, and assassinations," he says.

PANIC SALES. Investors can build in a margin of safety by buying when funds trade—as they often do—at a discount to the value of their securities portfolios. Bad news creates such discounts because, Herzfeld says, "the public reacts and sells without going through an evaluation."

Not surprisingly, the combination of investor pessimism and yearend tax-selling has widened the average discount of the single-country

funds Herzfeld tracks to almost 4%. A lot of hard-hit funds, including such European ones as the Emerging Germany Fund, the Future Germany Fund, and the Austria Fund, are trading at discounts of more than 10%. All of these funds would likely recover if the Ger-



man Bundesbank begins cutting rates and the storm clouds over Europe dissipate. "There's not a lot of downside at these levels," says William G. McBride at Lipper Analytical Services Inc.

Growth prospects should also play a role in picking funds. Despite the big runup in Southeast Asian funds in 1992,

Porter of Smith Barney still favors the region because its economies are expected to keep growing at a strong 5%-to-8% clip in 1993. Porter thinks that the Thai Capital Fund—hammered by the military coup earlier this year—now looks like good value. He also likes the Jakarta Growth Fund, which puts its bucks into fast-growing Indonesia. Porter strongly advises investors not to put all their chips on one country—no matter how sizzling the prospects. His favorite vehicle for one-stop investing in Asia is the Asia Pacific Fund. "It is aggressively positioned in the markets we like," Porter says.

SWEET AND SOUR. Porter is one of several analysts who are upbeat on the prospects in Latin America. For example, Josephine Jiménez, co-manager of the Montgomerie Emerging Markets Fund, an open-end fund launched this year, thinks Brazil's corruption scandal and the downfall of President Fernando Collor de Mello spells a buying opportunity. Porter believes that the Brazil Fund is now attractive. And he recommends the Mexico Fund, now at a 6% discount, for investors who want to bet on Mexico's growing economic relationship with the U.S.

Investors who wish to hitch their star to the overall Israeli stock market can buy into the recently launched First Israel Fund. Also this year, three U.S.-listed China funds came to market: the Jardine Fleming China Region Fund, the Greater China Fund, and the China Fund. All three have been hurt by the bickering between Britain and China over Hong Kong. While some investors are now stocking up on China plays, respected fund manager J. Mark Mobius, president of the Templeton Emerging Markets Fund Inc., urges caution. He worries that the

incoming Clinton Administration will attempt to curb China's \$15 billion trade surplus with the U.S. The Hong Kong-based fund manager warns "the whole China situation could get very sour." If he's right, perhaps investors should bide their time and wait for the big discounts to appear.

By Stanley Reed in New York

A ROUGH YEAR FOR COUNTRY FUNDS

A FEW WINNERS...

	Price per share	NAV per share*	Total return (Percent)
MALAYSIA	\$16.13	\$16.47	37.2%
CHILE	29.50	31.97	29.1
MEXICO	22.88	24.83	27.0
JAKARTA GROWTH	6.88	6.43	21.0
FIRST PHILIPPINE	10.00	13.19	15.9

...BUT SOME BIG LOSERS

	Price per share	NAV per share*	Total return (Percent)
SPAIN	\$8.25	\$8.36	-36.5%
JAPAN OTC EQUITY	7.88	7.00	-24.1
TAIWAN	19.13	19.58	-22.3
BRAZIL	11.75	12.83	-19.2
GERMANY	9.75	10.00	-18.8

*Net asset value, all data as of Dec. 11

DATA: SMITH BARNEY, HARRIS UPHAM & CO.

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FidelityPlusSM	\$54	\$126
Merrill Lynch	\$100	\$293
Shearson	\$107	\$316
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HERE'S A HUNDRED GRAND, GO PLAY

BUSINESS WEEK's pros beat the market in '92, but this year's group faces a new political climate

Wouldn't it be neat if someone handed you \$100,000 and said it was yours to bet on the stock market? That, in effect, is what BUSINESS WEEK does every yearend, when we ask a group of investment professionals to build an imaginary portfolio for the coming 12 months by picking 10 favorite equities.

Last year's wizards performed bravely in the face of mixed economic signals and political change. With the Standard & Poor's 500-stock index up 13% for the

Motorola, but he took a whipping with copper giant Phelps Dodge—his most speculative play.

And 1993 may prove even more of a challenge, as a new Administration takes charge of economic policy. This year's pros all think President-elect Bill Clinton will succeed in stimulating faster economic growth, but they have different views of where that growth will be strongest. Here's how they would place their bets to make the most of the turn-of-tide:

Baird and Murphy are also high on smaller-cap manufacturers. One is Duriron Co., which makes valves and pumps for industries such as food processing and chemical processing. "Duriron will benefit from stricter application of the Clean Air Act, which hopefully will happen under Clinton," says Murphy. The duo's second small-cap pick, Intermet Corp., makes car and truck parts and has one big thing going for it: Detroit's never-ending effort to stretch pennies by outsourcing. "Intermet can just make the parts a lot cheaper," says Baird.

Looking beyond manufacturing, she and Murphy like Cytogen Corp.—a long-term holding of theirs that's about to get approval from the Food & Drug Administration for its first tumor-imaging product. Cytogen has no earnings yet, but the imaging device "will give a tremendous assist to surgeons and radiologists," says Baird.

Baird and Murphy would add a further dash of speculation to their portfolio with Triton Energy Corp., one participant in a significant Colombian oil discovery. Estimates of the field's size range from 2 billion to 10 billion barrels, and Triton owns 20%. "It's controversial because Triton has a history of overpromoting itself," says Baird. But she thinks that new management has cleaned up the company's act.

Finally, the pair would throw in a couple of yield stocks: Rochester Telephone Corp., whose depressed shares are yielding 4.8%, and Kmart PERCS (preferred equity redemption cumulative shares) which are convertible into Kmart Corp. common stock in 1994 and now yield 7%.

ROBERT S. NATALE. As vice-president for equity research at Standard & Poor's Corp. and editor of S&P's newsletter *Emerging & Special Situations*, Robert S. Natale is used to model portfolios: He maintains one for his newsletter, and it's



BAIRD AND MURPHY: A CAUTIOUS MIX

Stock	52-week high	Current price*
CYTOGEN	34 ¹ / ₄	18 ³ / ₄
DURIIRON	29	24 ¹ / ₂
FOSTER WHEELER	32 ⁷ / ₈	29 ¹ / ₂
GENERAL ELECTRIC	83 ³ / ₄	84 ¹ / ₈
INTERMET	13 ¹ / ₄	9 ¹ / ₄
KMART PERCS	NA**	50 ¹ / ₈
ROCHESTER TELEPHONE	34 ¹ / ₂	32 ³ / ₈
TRITON ENERGY	48 ¹ / ₈	35 ⁵ / ₈
VARIAN	42 ³ / ₄	42 ³ / ₈
XEROX	82 ¹ / ₄	77 ⁵ / ₈

* Issued at 44 in August, 1991

12 months since Dec. 17, 1991, last year's Investment Outlook press date, the three pros we profiled all beat the market. The overall winner was First Wilshire Securities Management Inc.'s Fred L. Astman. His phantom portfolio of tiny-capitalization stocks rose 29% in value—largely thanks to little Herbalife International Inc., whose stock has zoomed from 2³/₄ last year to 14¹/₄.

Runner-up Robert E. Torray, who runs his own investment company in Bethesda, Md., and likes out-of-favor companies, saw his list gain 16%. His main triumph was Salomon Brothers Inc., up 36.6% to its previous 52-week high. And our most conservative seer, former First Boston Corp. equity chief Carmine Grigoli, racked up a solid 14% gain. Grigoli's big success stories were Intel and

BERNADETTE MURPHY AND SHEILA BAIRD.

At M. Kimelman & Co., a New York company that manages some \$140 million for high-net-worth individuals and charitable institutions, Bernadette Murphy and Sheila Baird describe their investment style as conservative and say they look for long-term capital appreciation. In the coming year, they believe, market leadership will shift away from growth stocks. "Our mix is tending more toward industrial companies," says Baird. In that category, they would pick Foster Wheeler, General Electric, Varian, and Xerox. Although all four are trading near or at their 52-week highs, Murphy and Baird think a general manufacturing upturn will bring further earnings gains for these nitty-gritty industrial suppliers.

p 25.4% so far this year. Natale leans toward smaller-cap stocks of companies that "might benefit from an announced pending event, apart from general industry or market conditions." While he believes that an improving economy and stable interest rates bode well for equities, he's bullish on small caps because he thinks they're still undervalued.

Alexander & Baldwin Inc. certainly qualifies as a special situation. Natale calls it his Hawaii play: The company has a two-thirds market share in commercial shipping between Japan and the U.S. mainland, it owns a lot of land on Maui, and its stock got pummeled by Hurricane Iniki. As Hawaiian tourism revives in 1993, Natale expects a turnaround. Also out of favor is Dames & Moore, a Los Angeles-based pollution-control company. Natale expects that under Clinton, cleanup businesses will make a comeback.

Two more turnaround stocks Natale likes are Westinghouse Electric Corp., whose earning power, in his view, has been temporarily hidden as the company recasts itself, and DWG Corp., now in the hands of Nelson Peltz and Peter W. May Corp. About the debt-ridden conglomerate, Natale says: "I think Peltz and May will issue a recapitalization and start improving operating margins. The stock could hit 20 to 25 [from 15 now] in a year's time." Then there's Conmed Corp., a maker of electrosurgical devices whose investors were disappointed by third-quarter results. In 1993, Natale thinks Conmed's laparoscopic instruments for noninvasive surgery will ensure superior earnings.

In fact, he's bullish on health-care companies. Another slightly controversial pick, Hook-SuperX Inc., operates drugstores and health-supply centers in

22 states in the Midwest and the Northeast. Highly leveraged and 25% owned by Goldman, Sachs & Co., Hook-SuperX went public in June at 13 and is trading only slightly higher now. But it gets Natale's vote of confidence because "it's undervalued against comparables." His

for 25¢ and are redeemable for Hanson's British shares at 300 pence until September, 1997. With the London shares now trading at 225 to 230 pence, and considering Hanson's "stellar record of increasing sales and earnings," Natale thinks investors could make a killing.



NATALE: SPECIAL SITUATIONS

Stock	52-week high	Current price*
ALEXANDER & BALDWIN	30½	24
CONMED	39	14½
DAMES & MOORE	22¾	19¼
DWG	15	14¾
HANSON (ADR)	22⅞	17½
HOOK-SUPERX	13⅞	13
MALAYSIA FUND	16⅞	16¼
MEDIPLEX GROUP	20¼	20
TELEFONOS DE MEXICO	60⅞	55
WESTINGHOUSE	21⅞	12¾

reasoning is the same for Mediplex Group Inc., which runs 32 inpatient sub-acute-care facilities in nine states and is buying an ambulatory surgery center. "They're growing both internally and through acquisition," Natale says.

Natale would round off his portfolio with three international plays: Malaysia Fund Inc., because he expects 8% real economic growth in that emerging market for 1993; the popular Telefonos de México, because "the number of lines per thousand in Mexico is still really low"; and Britain's Hanson PLC, whose stock he believes has more upside potential than any other on his list. Although Hanson issues American Depositary Receipts, Natale advises U.S. investors to buy Hanson Class B warrants, which trade on the American Stock Exchange

JOHN CARRINGTON. Britain's recovery still trails the U.S.'s, and that's one reason John Carrington, managing director of London's Carrington & Co., is so sanguine about U.S. stocks for 1993. Like Kimelman's Baird and Murphy, Carrington thinks profit margins in manufacturing are bound to rise, because "the recession on both sides of the Atlantic has been going on so long that there's been a shrinkage of capacity." But he especially favors companies whose marketing he believes is superior. For this reason, core holdings in his hypothetical portfolio would be Gillette Co. and Philip Morris Cos.

Another "brilliant marketing organization," Carrington says, is Duracell Inc., which he believes can look forward to fast growth abroad in the coming year.

His last big-company choice in the U.S. would be Eastman Kodak Co., which he calls a recovery stock. "We think they've gotten their act together in management terms," he says, "and the potential in recordable compact disks, where they're in the forefront of the market, is enormous."

Into this investment brew Carrington would stir four smaller U.S. companies with strong presences in niche markets. He recommends Class B shares of Aaron Rents Inc., an Atlanta-based furniture-rental company that

CARRINGTON: THE VIEW FROM ABROAD

Stock	52-week high	Current price*
AARON RENTS CLASS B	8⅞	8¾
COURTAULDS (ADR)	10½	8⅞
DURACELL	37¼	34½
EASTMAN KODAK	50¾	41¾
GILLETTE	61¼	58⅞
MARCAM	32	29¾
NOKIA	NA	95†
PHILIP MORRIS	86⅞	77¼
SYBRON	23⅞	22⅞
SYNOPTICS	73¾	68¾

†Finnmarks; trades on pink sheets



has profited both from hurricane damage and from the long recession; Marcam Corp., a Newton (Mass.) software maker with strong financials that sells process-control programs to manufacturers such as food, gas, and pharmaceutical companies; Sybron Corp., which makes laboratory disposables and orthodontic equipment—a high-margin business; and Synoptics Communications Inc., a high-tech survivor that makes a key component of local area networks. Carrington believes that with the restructuring of the computer industry far from over, the niche players that have

a more pro-growth Administration," Millsap says. Furthermore, "the cheapest areas in the market are the most economically sensitive ones: metals, forest products, chemicals, energy, and machinery." Two picks in this category, Amax Inc. and Champion International Corp., get Millsap's vote of confidence, based on heavy capital spending that he thinks will pay off handsomely in future earnings. In Amax' case, Millsap cites a new aluminum smelter in Canada that he calls "one of the lowest-cost aluminum plants in the world." And about forest-products manufacturer Champion,

likely under Clinton. "If you look what happened to Cat in 1986 [when the investment tax credit was phased out], looks like the stock ran into a brick wall," says Millsap. "We think the reverse of that will occur now."

In energy, Millsap gives oil-services Baker Hughes Inc. the thumbs-up because he believes it's well-positioned "one of the few industries in the world that is dominated by U.S. companies." He thinks its 1992 acquisition of Teleco will enhance an already strong market share in directional drilling, a "very high-margin business." Millsap's other

oil pick is really a chemical play in disguise: Occidental Petroleum Corp. Its chemical division has a leading market share in polyvinyl chloride, chlorinated and caustic soda, and No. 2 in antifreeze. While praising Occidental's overall restructuring, which he says has been completed ahead of schedule, Millsap thinks the "dramatic earnings recovery" anticipated will come mainly from good chemistry.

Millsap shows his contrarian colors more with his last four picks



MILLSAP: QUITE CONTRARY

Stock	52-week high	Current price*
AMAX	23 ³ / ₈	16 ¹ / ₂
BAKER HUGHES	25 ³ / ₈	18 ⁷ / ₈
CATERPILLAR	62 ¹ / ₈	53 ¹ / ₄
CHAMPION INTL.	30 ¹ / ₄	29
DEC	65 ¹ / ₂	32 ³ / ₄
HOMESTAKE MINING	16 ⁵ / ₈	11 ¹ / ₈
IBM	100 ³ / ₈	56 ³ / ₈
INLAND STEEL	27	22 ⁵ / ₈
OCCIDENTAL PETROLEUM	23 ¹ / ₈	18 ¹ / ₈
PLACER DOME	12 ³ / ₈	11 ³ / ₈

*As of Dec. 15

DATA: BRIDGE INFORMATION SYSTEMS INC.

managed to hang on till now are the best long-term bets.

International winners in Carrington's crystal ball include Courtaulds PLC, whose new, natural-based fiber called Tencel "has taken off like mad in Japan," and Finnish conglomerate Nokia, which has teamed up with Switzerland's SMH, maker of Swatch products, to design cellular phones. In addition, he says, "Finland has had three terrible years and two devaluations, and all my information is that the second one worked."

MARK W. MILLSAP. Our last prognosticator hails from the heart of Clinton country: Little Rock, where Meridian Management Co. oversees some \$200 million. Vice-President Mark W. Millsap describes his investment style as value-oriented, but "we are typically categorized as contrarians." Millsap says Meridian "looks for stocks selling at a fraction of what we think they're worth." He believes in an investment time horizon of years, not months, and stresses that his choices are for the long term.

The victory of homeboy Clinton hasn't altered Meridian's philosophy, but "our portfolios are positioned to benefit from

he points out that papermaking productivity is up 23% since 1986. "This has not gone unrecognized by other value investors," he notes, mentioning Warren Buffett, Laurence Tisch, and John M. Templeton as fellow champions of Champion.

Big beneficiaries of Clinton's infrastructure-spending plans, says Millsap, will be Inland Steel Industries Inc. and Caterpillar Inc. Apart from rising steel prices, he thinks Inland's joint venture with Nippon Steel Corp., the biggest Japanese-American partnership to date, will beef up earnings. "The U.S. in general has become the world's low-cost producer of steel," he says, "and Inland is in an exceptional position to improve profits." Caterpillar, meanwhile, whose stock is selling at its 1980 price, stands to gain from the investment tax credit and a liberalized depreciation schedule

**Among Millsap's long
shots: IBM and DEC,
and two gold stocks**

Computer giants Digital Equipment Corp. and IBM—trading, respectively, at the 5- and 10-year lows—fall squarely in the category of supercheap long-term buys. "Both have been very slow to react to a difficult business environment," he says, "but they're doing it now." And Millsap would cap his portfolio with two gold stocks: Homestake Mining and Placer Dome Inc. "No industry is more unpopular than precious metals, but we see a brighter picture ahead," he says. In part, he cites market dynamics: higher jewelry demand and sharply reduced reserves. In Placer Dome's case, Millsap has high hopes for new President and CEO John M. Willson. And he sees shining prospects for Homestake in gold and sulfur projects soon to come on stream.

Millsap has a macroeconomic rationale for his gold picks, too. "We think inflation is likely to be a bigger problem than is generally perceived," he says. Meridian predicts inflation of 4% to 6% in the next couple of years, and Millsap thinks "that could be viewed as a major negative in the stock market." Does the market from Little Rock know something the rest of us don't? Noncontrarians can only hope he doesn't.

By Joan Warner in New York

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The Image Of The Future



FUNDS RAKED IT IN— BUT INVESTORS DIDN'T

As money fairly flew into mutual funds of all stripes, most investors were left scrounging for profits

With a record-shattering \$295 billion pouring into mutual funds in 1992, fund executives are entitled to end the year with a rollicking toast. Investors, though, may not be in such a good mood. After 1991's double-digit feast, fund returns were more akin to *nouvelle cuisine* in 1992. And after wowing investors by outperforming the Standard & Poor's 500-stock index in 1991, the average equity fund slipped back into its usual pattern of underperforming the index by about 2 percentage points. While the S&P 500 returned 6.90%, the typical equity fund returned just 4.96%.

Virtually all of the gains came in the year's second half as the prospect of an improving economy whetted investors' appetites for stocks. While fund returns overall were less than exciting, there were some dramatic shifts among leading fund categories. Oppenheimer Global Bio-Tech, which ended 1991 up 104.57%, fell 23.57% to become one of the year's worst performers. Taking the place of 1991's hot biotechnology and health-care

HOW STOCK-FUND GROUPS FARED IN 1992

	Total return*		Total return*
FINANCIAL	30.22%	BALANCED	5.90%
SMALL-COMPANY	10.04	MAXIMUM GROWTH	5.86
INCOME	9.19	NATURAL RESOURCES	1.44
TECHNOLOGY	8.25	INTERNATIONAL	-4.31
EQUITY-INCOME	7.89	HEALTH	-6.44
UTILITIES	7.79	PRECIOUS METALS	-15.97
MISCELLANEOUS	7.49	DIVERSIFIED U.S. EQUITY	7.06
GROWTH-INCOME	6.89	ALL EQUITY FUNDS	4.96
GROWTH	6.37	S&P 500 INDEX	6.90
ASSET ALLOCATION	6.02		

*Appreciation plus gains through Dec. 11
DATA: MORNINGSTAR INC.

funds were more prosaic financial-services and value-oriented funds.

Funds that were plays on an improving economy paid off handsomely. Five of the top 10 equity funds were from Fidelity Investments' family of sector funds. The \$89 million Fidelity Select Savings & Loan was the best performer, with its portfolio of battered stocks up by almost 52% for the year. Close behind were some of its brethren: Fidelity Select Regional Banks, up 41.27%; Fidelity Select Automotive, up 39.82%; and Fidelity Select Financial Services, up 35.77%.

Whether these groups can maintain their torrid pace isn't clear. "There's a

lesson to be learned from the health and biotech funds," says A. Michael Lipper, president of Lipper Analytical Services Corp. "They had two good years back to back, but couldn't make it to three. I would start to be a little nervous in the financial-services area because it has led for so long."

Despite a bumpy ride, small-cap stocks also enjoyed a second good year. They started out strong, got beaten down, and ended

the year in a comeback mode, with the Russell 2000, an index of small stocks, up more than 13% as of Dec. 14. "Small-cap stocks have done astoundingly well in the last few months on optimism about President-elect Clinton, improved economic conditions, and stocks in general," says Neal Litvack, senior vice-president at Fidelity Investments. History is on the small-cap investor's side: According to Prudential Securities Inc., small-cap stocks have gained an average of 38.8% in the first year of Democratic Presidencies.

'FRENZY.' Funds that loaded up on undervalued stocks were among 1992's market leaders. The top-performing value fund was Oakmark, a \$220 million fund that gained 46.01%. But while small-cap holdings were a partial reason for the fund's success in 1992, portfolio manager Robert Sanborn says there's "almost too much frenzy in the small-cap area." He's moving into companies in the defense industry that generate good cash-flow and will benefit from any consolidation, such as Martin Marietta Corp., which makes up 6% of the fund. Another 20% is in niche insurers such as American Income Holding Inc. in Waco, Tex., and other financial-services stocks.

The \$45 million Heartland Value Fund also made the top 10, up 37.36%. Portfolio manager William J. Nasgovitz is taking profits in regional bank and savings and loan stocks and adding such residential construction companies as Engle-

THE 20 LARGEST EQUITY FUNDS

Fund	Assets* Billions	Total return**	
		1992	5-year avg.
Fidelity Magellan	21.05	5.20%	20.72%
Investment Co. of America	14.02	5.99	15.89
Washington Mutual	9.48	8.49	15.63
Windsor	8.23	13.38	13.95
Vanguard Index 500	5.77	6.84	17.02
Income Fund of America	5.64	9.81	13.75
Fidelity Puritan	5.62	13.50	14.18
Wellington	5.10	7.08	13.68
AIM Wanger	4.98	-1.36	20.71
Windsor II	4.80	10.79	16.27
...	4.66	5.54	21.07

*As of Sept. 3
1992 returns through Dec. 11; 5-year, through Nov. 30

Fund	Assets* Billions	Total return**	
		1992	5-year avg.
Fidelity Equity-Income	4.65	12.11	13.49
Dean Witter Dividend Growth Secs.	4.60	5.89	16.06
American Mutual	4.60	6.95	13.62
Twentieth Century Select Investors	4.47	-4.65	15.01
Twentieth Century Growth Investors	4.39	-5.46	20.67
Fidelity Growth & Income	4.29	9.61	19.35
Templeton World	4.02	1.21	11.40
Twentieth Century Ultra Investors	4.01	-3.34	29.06
Pioneer II	3.97	8.21	13.62

**Includes dividends and capital gains.
DATA: MORNINGSTAR INC.

homes in Boca Raton, Fla., and such regional brokers as St. Louis-based Stiel Financial Corp.

A relatively unknown value fund that crept up the charts is Skyline Special Equities, up 37.02%. The fund buys undervalued companies only if they have above-average earnings potential of 12% to 15%. After growing from \$70 million in September to \$150 million on Dec. 10, the fund closed to new investors.

Among the industry giants, the value approach paid off in spades, particularly on investments in companies pummeled

by the recession. The \$8.2 billion Windsor Fund pulled down the best return, 13.38%. Fund Manager John B. Neff gave himself an A++ on his annual report card to shareholders for buying Chrysler Corp., which was up 117% at the close of the fund's Oct. 31 fiscal year. Stakes in Citicorp and Baybanks Inc. also boosted returns. The year wasn't so kind to \$21 billion growth fund Fidelity Magellan. After ending 1991 with one of the best returns among the largest equity funds, the fund didn't even beat the S&P 500 in 1992, gaining

just 5.20%, far off its average five-year return of 20.72%. Defensive positioning caused the fund to miss much of the run in small-cap stocks in 1992. The \$4.4 billion Twentieth Century Growth Investors, 1991's leader with a 52.58% return, did even worse, down 5.46%.

'POOR TIMING.' Investing at home was another strategy that paid off in 1992, largely because of serious economic weakness in Europe and Japan. Diversified U.S. equity funds were up 7.06%, while international equity funds lost 4.31%. European stock funds ended a

EQUITY FUNDS: THE YEAR'S WINNERS AND LOSERS

1992'S BEST PERFORMERS...

	Total return*		Total return*		Total return*
Fidelity Select Savings & Loan	51.78%	Main Street Income & Growth	24.70	DFA U.S. 9-10 Small Company	20.92
Oakmark	46.01	Fidelity Select Electronics	24.64	Financial Strategic Leisure	20.75
Fidelity Select Regional Banks	41.27	Gintel	24.24	PBHG Growth	20.69
John Hancock Freedom Regional Bank B	40.66	Century Shares	23.87	Fidelity Select Retailing	20.14
Fidelity Select Automotive	39.82	Morgan Stanley Asian Equity	23.24	FAM Value	20.04
Heartland Value	37.36	FPA Capital	23.18	Mutual Beacon	20.03
Skyline Special Equities	37.02	Sherman Dean	22.82	Fidelity Select Insurance	20.02
Fidelity Select Financial Services	35.77	Merrill Lynch Phoenix A	22.16	Financial Strategic Financial Svcs.	19.97
Fidelity Select Software & Computer	33.23	Woodward Opportunity	21.68	MAS Pooled Small Capitalization Value	19.91
PaineWebber Regional Financial Grth. A	32.83	First Eagle Fund of America	21.54	Delaware Trend	19.67
Parnassus	32.81	Thomson Opportunity B	21.51	Fidelity Select Transportation	19.67
Retirement Planning Global Value	28.24	Acorn	21.44	Mutual Qualified	19.67
G.T. America Growth	27.46	Bull & Bear Special Equities	21.26	Merrill Lynch Corporate Dividend	19.64
Fidelity Low-Priced Stock	26.53	Babson Enterprise	21.21	Fidelity Select Broadcast & Media	19.58
Pioneer Capital Growth	25.70	Putnam New Opportunities	21.15	Sound Shore	19.48
John Hancock Special Equities	25.37	Boston Company Special Growth	20.97	Lindner Dividend	19.36

... AND WORST LOSERS

	Total return*		Total return*		Total return*
Lexington Strategic Investments	-59.69%	Blanchard Precious Metals	-18.14	United Services Growth	-13.60
United Services Gold Shares	-50.10	Bull & Bear Gold Investors	-17.60	Financial Strategic Energy	-13.52
Van Eck International Investors	-28.73	Vanguard Intl Equity Index Pacific	-17.30	Financial International Growth	-13.51
Monitrend Gold	-27.72	Financial Strategic Environmental	-15.85	G.T. Global Health Care	-13.42
Progressive Value	-27.04	Keystone Precious Metals Holdings	-15.21	Phoenix International	-13.39
DFA Japanese Small Company	-24.18	Japan	-15.06	United Gold & Government	-13.32
Oppenheimer Global Bio-Tech	-23.57	Fidelity Select Health Care	-14.66	Rodney Square International Equity	-13.24
Fidelity Select Precious Metals/Min.	-22.14	Financial Strategic Health Sciences	-14.55	G.T. Europe Growth	-13.03
Progressive Aggressive Growth	-21.19	Dreyfus Strategic Growth	-14.51	Fidelity Overseas	-12.99
Lexington Goldfund	-20.73	U.S. Boston Foreign Grth&Inc Ordinary	-14.51	Lexington Strategic Silver	-12.69
Franklin Gold	-20.65	Financial Strategic Pacific Basin	-14.36	Templeton Developing Markets	-12.57
G.T. Japan Growth	-20.34	Oppenheimer Global	-14.32	Fidelity Select Medical Delivery	-12.51
Enterprise Precious Metals	-20.08	American Investors Growth	-14.14	NY Life Institutional EAFE Index	-12.22
Vanguard Specialized Gold/Prec. Metals	-19.22	PFAMCo International Equity	-14.02	PaineWebber Europe Growth A	-12.04
DFA United Kingdom Small Company	-18.89	Flag Investors International	-13.74	Average for 1,122 funds	4.96%
DFA Continental Small Company	-18.49	Thomson Prec. Metals & Natural Res. B	-13.74	S&P 500-stock index	6.90%

*Appreciation plus capital gains through Dec. 13

DATA: MORNINGSTAR INC.

turbulent year down 8.50%. Economic problems in Japan led such funds as DFA Japanese Small Company to fall 24.18% for the year.

Some investors see Japan's woes as a buying opportunity. "In mid-July, when the Japanese market looked like it was in a tailspin, we had the best inflow into the Pacific Index fund ever," says Vanguard Group Vice-President Brian Mattes. "The lessons of 1987 are staying with investors: not to panic on short-term pressures in the market but to go stoically into the breach and buy." John Rekenhaller, editor of guide *Morningstar Mutual Funds*, is leery of Japan but thinks Europe offers some opportunities. He sees more long-term U.S. money managers bottom-fishing in Europe and points to European investors' rising interest in investing in U.S. stocks. "The last time European investors liked U.S. stocks was in the first half of 1987, when they bought heavily up until the crash," says Rekenhaller. "They have a history of poor timing."

Precious-metals funds belied their names once again, dominating 1992's list of the worst-performing funds. Lexington Strategic Investments had the dubious honor of moving down from a spot as the fourth-worst performing fund in 1991 to being the absolute-worst fund in 1992, off almost 60%. Assets in the fund have dropped from \$24 million at the end of 1991 all the way to \$8.9 million as of Dec. 11. Other funds, such as Van Eck International Investors, which is down 28.73%, took a beating because of the European currency crisis in September.

Among bond funds, junk led the pack for the second year in a row. The average return on high-yield funds was 16.47%, with the next-best performance coming from the convertible-bond category, up 11.86%. Rochester Convertible tops the list of the best taxable bond funds with a 27.52% rise, closely followed by Advantage High-Yield Bond, with its 26.62% return. Advantage fund manager Margaret Patel credits much of

the rise in her fund to a strategy of investing heavily in the convertible securities of small-cap companies and staying away from distressed credits.

Municipal-bond funds also provided healthy returns, with the average fund up 7.85%. That beat the 5.19% average return for government-bond funds and the 6.41% return on corporates. The average taxable fixed-income fund returned 6.68%. Lori Lucas, an analyst with mutual fund rating service Morningstar Inc., says the generally mediocre results in taxable bond funds are a portent of years to come, since lower short- and long-term interest rates won't provide fund managers with as much opportunity to boost total return by playing interest rate declines.

International bond funds had a rocky ride in 1992. The currency crisis in Europe left a number of short-term world income funds reeling, with the average fund down 1.12%. One fund in particular took a dive: Pilgrim Short-Term Multi-Market Income I fell more than 10% during September, ending the year down about 15%. The broader international bond category was up 3.20%.

While mutual-fund returns in general were nothing to cheer about, the flow of money into mutual funds set records. New and reinvested money, total sales in 1992 will likely exceed 1991's record by 50%, according to the Investment Company Institute. Much of the increase came from savers who abandoned the safe but low-yielding shelter of certificates of deposit and money-market funds. As of October, taxable money-market funds had slipped to 30.9% of total mutual-fund assets, from 33.4% the previous year. Tax-free money funds went downhill from 6.7% of assets to 6.1%.

WILD CARDS. The influx of more conservative savers-turned-investors is changing the concentration of funds in the industry. Bond assets grew much faster through the first 10 months of 1992 than in 1991, attracting \$182.3 billion through October, well ahead of 1986's previous record of \$158.1 billion. That left bond funds with a 35.4% share of total dollar in mutual funds, up from 32.6% in 1991. Stock funds' share of total assets inched down from 27.6% to 27.3%.

With signs of economic recovery mounting, the market seems to have snapped out of its first-half stupor. But interest rates are 1993's big wild card, and the policies of a new President are bound to bring some surprises. Investors who find little to toast in 1992's returns may want to raise a glass for another reason: to fortify themselves for a New Year of investing.

By Suzanne Woolley in New York

THE BEST BOND FUNDS

1992'S BEST TAXABLE BOND FUNDS

	Total return*
Rochester Convertible	27.52%
Advantage High-Yield Bond	26.62
Fidelity Capital & Income	25.72
Dean Witter High-Yield Securities	24.30
National Bond	24.16
Venture Income (+) Plus	22.64
PaineWebber High-Income A	22.09
Fidelity Advisor High-Yield	21.56
MainStay High-Yield Corporate Bond	20.82
Fidelity Convertible Securities	20.37
SunAmerica High-Yield	20.24

	Total return*
Colonial High-Yield Securities A	19.93
Fidelity Spartan High-Income	19.87
Putnam Convertible Income-Growth	19.50
SunAmerica High-Income	19.45
Seligman High-Yield Bond	19.26
Shearson High-Income B	18.83
IDS Extra Income	18.62
Putnam High Yield	18.50
Keystone America High-Yield Bond	18.48
Lutheran Brotherhood High-Yield	18.35
Average of 577 funds	6.68

1992'S BEST TAX-FREE BOND FUNDS

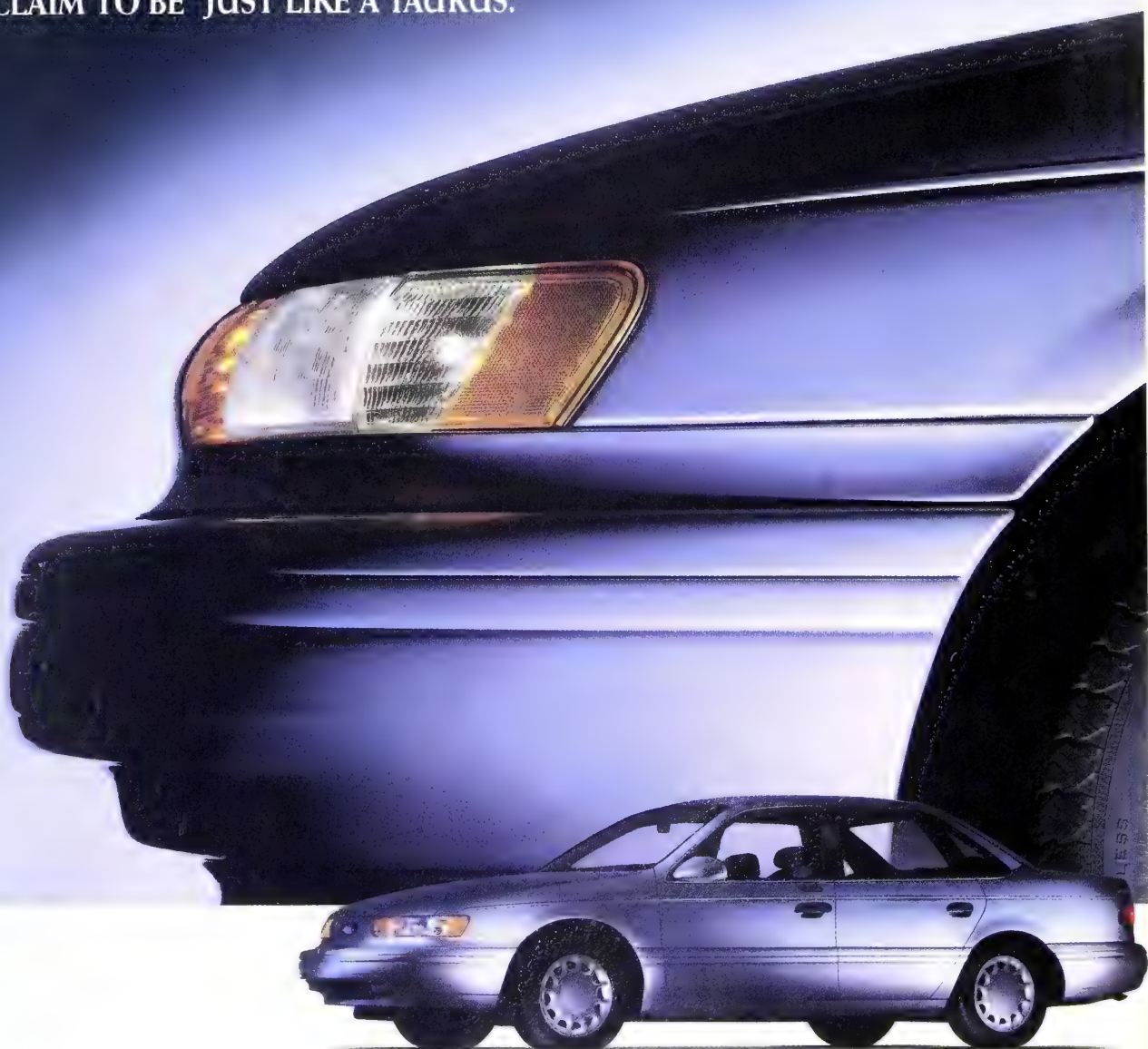
	Total return*
Vista Tax-Free Income	11.99%
Strong Municipal Bond	11.26
Franklin NY Tax-Free Income	10.58
Putnam Municipal Income	10.51
Flagship NY Tax-Exempt	10.41
New York Muni	10.32
Fidelity Advisor High-Income Muni.	10.27
Rochester Fund Municipals	10.13
Premier State Municipal Bond VA	10.04
Scudder Massachusetts Tax-Free	10.00
Transamerica Tax-Free Bond A	10.00

	Total return*
Putnam MA Tax Exempt Income II	9.96
Mariner New York Tax-Free Bond	9.87
Putnam Tax-Free High Yield	9.86
Quest For Value National Tax-Exempt	9.77
Flagship All-American Tax-Exempt	9.74
Phoenix Tax-Exempt Bond	9.73
Voyageur Arizona Insured Tax-Free	9.73
Voyageur Colorado Tax-Free	9.73
Merrill Lynch TX Municipal Bond A	9.71
Nuveen New York Tax-Free Value	9.71
Average of 477 funds	7.88

*Appreciation plus reinvested dividends and capital gains through Dec. 11

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A FORD LATELY?**



A FEW NIFTY YIELDS WON'T ADD UP TO A RALLY

The bond market's overriding hope is that Clintonomics won't spur inflation

A Democrat at 1600 Pennsylvania Ave. means inflation, right? And that spells soaring interest rates and a rout in the bond market? Well, the conventional partisan wisdom may no longer be valid, if it ever was. To be sure, the last Democratic President, Jimmy "Double-Digit" Carter, suffered the misfortune of an oil-price explosion that made all other prices take off, too. But absent another oil shock or some other uncontrollable event, the Clinton Administration should see only a small pickup in inflation—and interest rates—during its first year. And while this would foreclose chances of a bond market rally, investors should find plenty of fixed-income opportunities in 1993.

Until right before the election, the bond market had a lot of pep, thanks to low inflation and the continuing economic slump, which hung around far longer than anyone had anticipated. By October, as Clinton's election seemed more and more likely, the market got nervous, sure that massive federal spending was on the way. Lately, though, bond traders are more upbeat, and the market has regained lost ground. There are two immediate reasons for this: The President-elect's mainstream choices for his economics team, and his camp's suggestions that a large stimulus package may not be needed because the recovery finally seems to be for real.

The overriding factor in charting the market's course in 1993 is inflationary expectations. Sure, economic recovery usually gooses the consumer price index level. Yet remaining slack in the economy, plus such lingering problems as real estate defaults and defense-industry shrinkage, should ensure that any uptick

won't be a barnburner. Many economists expect inflation in 1993 to be 3% or less.

Wall Street is optimistic that the CPI outlook will be sufficiently tame to prevent the inflation-loathing Federal Reserve from pushing short-term rates higher soon. The nation's central bank has pulled rates down 24 times over the past three years in an effort to combat

the recession. The Fed is well aware that the mania in a slash movie: Every time you think he's dead, he lunges back to his feet, butcher knife in hand. That's why, predicts Martin J. Maurer, a Merrill Lynch & Co. senior economist, "the next Fed tightening is a ways off."

Not that there are some other influences that could provoke higher rates. Most prominently, the U.S. government's borrowing needs remain voracious. Raising the money to finance the \$30 billion-plus federal budget deficit probably requires current 30-year Treasury rates to be at least two or three percentage points higher than they ideally

should be. Besides, Treasury yields must compete with higher European ones.

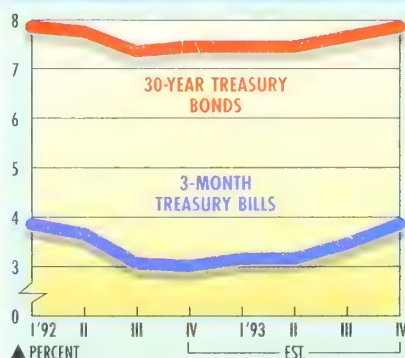
The chief culprit, on this score, is Germany, which is striving to pay for merging with its formerly communist region and is paranoid about inflation. Many other European nations are linked to Germany's rates. German three-month paper yields 9%, almost three times a comparable T-bill and 1.5 percentage points more than the long bond.

SHORT SHOTS. Nonetheless, U.S. money managers expect the Bundesbank, Germany's central bank, to lower rates sometime in the coming year's first half out of concern over an economic downturn there. That at least should ease the need for the long bond to drift higher during the year's first two quarters. Says Arthur J. Steinmetz, a vice-president and mutual-fund portfolio manager for Oppenheimer & Co.: "When the Germans cut rates, Treasuries will look more attractive."

Netting these various considerations, it seems clear that rates will go up sometime in 1993, particularly on the short end of



RATES: INCHING UPWARD



the yield curve (chart). Expect 30-year Treasuries to stay pretty much where they are, around 7.5%, for the first half of the year, then begin to nudge 8%. When you consider that this is where the long bond was during early 1991, the prospect isn't horrible.

What's the best investing strategy, given such a scenario? Obviously, capital-gains plays aren't in the offing when rates are expected to ascend. But looking at things from the other side, the timing seems right for some profit-taking, if you happen to be holding on to some old, higher-coupon debt. Like 9.1% paper from the beginning of 1989. "Bondholders who have been patient with this should be able to cash in," says Hugh A. Johnson, chief economist for First Albany Corp.

For other folks, the most prudent choice is to stay in intermediate maturities, from 5 to 10 years. A 10-year Treasury, for instance, yields 6.8%, not such a great distance from the long bond. Moreover, the 30-year Treasury is almost twice as sensitive to price changes. "The long bond doesn't compensate you for that kind of risk," says Kenneth C. Weiss, president of Hyperion Capital Management Inc. The great advantage to Treasuries, of course, is that they are backed by the full faith and credit of the U.S. government. The added plus is that they can't be called, so whatever interest rate an investor chooses, it is locked in for the term of the bond.

JUICY JUNK. None of that holds true for corporate bonds. There was a surge of investment-grade corporate issuance in 1992, two-thirds of it from companies calling their older, more expensive debt and refinancing it. That wave seems to have pretty much abated. What's left over is a narrow spread between investment-grades and Treasuries that many find unappetizing in light of the advantages of owning federal bonds. The spread now is an average 0.6 percentage points. Two years ago, it was a much more enticing 1.6 points.

Just the same, canny investors still can find some investment-grades that provide nice spreads. Mark J. Grant, a managing director at Rodman & Renshaw Inc., likes United Airlines Inc.'s equipment trust certificates, which command a spread of about 1.5 points because United, like other airlines, is suffering from price wars and the recession. "Look for strong airlines with large asset bases," says Grant. He believes United's current woes are temporary: Along with the two other leading U.S. carriers, Delta Air Lines Inc. and American Airlines Inc., it should emerge from the recession stronger.

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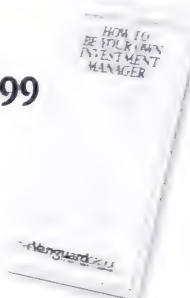
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three points over Treasuries; the lower rated before you get into potential fault territory. B-, delivers a siren song five-point spread. A strengthened economy should reduce the default risk—always a consideration with the sorts of highly indebted companies that are the typical junk issuers. Defaults in 1992 are one-third of 1990's peak of \$1 billion. After a near-collapse of the market in 1990, junk came back into vogue in mid-1991 on the expectation of an economic recovery. It has been quite a ride. According to First Boston Corp., total return (interest payments and price changes) for high-yield bonds this year has been 13.6%, vs. 4.6% for 10-year Treasuries and 2.9% for the Standard Poor's 500-stock index.

Although junk is unlikely to top its 1993, good opportunities abound, and the market still is excited about the bottom stuff. Consider Chrysler Corp., rated B-, whose financial prospects have improved

A stronger economy
should reduce some
default risk from junk



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proved with the successful introduction of a new line of cars. On Dec. 9, it came to the bond market for the first time since 1990, intending to sell \$250 million in seven-year notes. Demand was so strong that the issue was expanded to \$400 million. In fact, many money managers expect a slew of promotions for junk credits to investment-grade in 1994, which would buoy their prices. "A lot of them have spent their time paying off a lot of debt," says Oppenheimer's Steinmetz, "and that makes them look pretty good for upgrades."

Asset-backed securities also have done well of late. They are paper backed by credit-card receivables and other loans. The fear going into the recession was that such paper would suffer as consumers skipped loan payments. That proved to be unfounded, because for most issues, revenue was more than sufficient to service the debt, even for securities issued by ailing parents. When Moody Investors Service Inc. downgraded Sears, Roebuck & Co., the agency left the top rating intact for the retailer's asset-backed paper.

The real hot property in the fixed-income world of 1993 should be municipal bonds (page 102). If Clinton makes good on his campaign promise to raise income tax rates for the wealthy, it would pro-

el a lot of investment into these tax-exempt securities. The muni market also should benefit from fewer planned issues in 1993, which would constrain supply and bolster prices.

One warning: Munis default, too. Fortunately, like junk, their default rate is in the downswing. Many issuers are very secure and unlikely to tank. New York's Triborough Bridge & Tunnel Authority (rating: A+) recently sold six-year bonds yielding 4.7%. That's a taxable equivalent of 6.8%, roughly 0.5 points better than a comparable Treasury security.

Things are looking up for mortgage-backed securities, as well. These are pools of individual mortgages that U.S. agencies such as the Government National Mortgage Assn. guarantee or insure. Their 0.8-point spread over Treasuries is better than that of corporates. Another alluring difference is that mortgage-backed are less risky than corporates. Their big vulnerability is that the underlying mortgages may be paid off by homeowners eager to refinance at lower rates. When that happens, investors get back their principal sooner than expected. But 1992 was the high-water mark for home refinancings, which means that worry is over for mortgage-backed securities.

MAKING SENSE. Partly to deal with prepayment problems, some mortgage-backed are being recast into exotic formulations called collateralized mortgage obligations (CMOs)—the higher the interest rate, the higher the prepayment risk. So-called "companion" CMOs offer spreads of 1.3 points over Treasuries. On the less risky end of the spectrum, "planned amortization class" CMOs deliver a more pedestrian 0.6-point spread. The average investor, however, is likely to have a great deal of difficulty deciphering the tantric languages of CMOs to discern what's most appropriate. Seeking professional advice makes sense.

One might also weigh the advice of Polonius, the character in *Hamlet* who was perhaps the most financially risk-averse thinker of his day: "Neither a borrower nor a lender be." Today, the man who first sloganeered for financial prudence might look doubly askance at anyone jumping into bonds. This market has been dreading a strong burst of economic growth—along with its evil twin, inflation—for a long time. And in the past, recoveries have been strong.

The prospect of an economic rebound, even a slow one, accompanied by relatively low interest rates and low inflation, does not compute for many long-time fixed-income investors. But lots of good money has been made venturing into unconventional territory. The new year could be just such a time.

By Larry Light in New York

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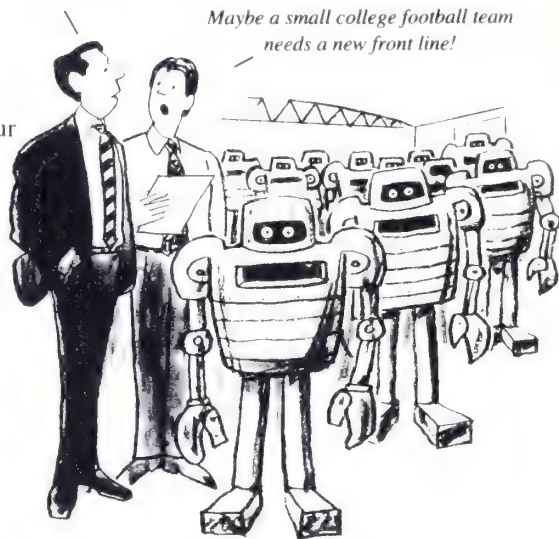


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A YEAR FOR MUNI HAPPY RETURNS

The taxman cometh, and municipal bonds should thrive

It looks as if it could be a red-letter year for municipal bonds. Probable tax hikes, lots of redemptions, and a falloff in new-issue volume should combine to give tax-exempt investors exceptional returns, according to industry experts. One possible factor that could spoil the party: rising interest rates spurred by a strong economic recovery, which could erode muni values.

The positive factors, though, predominate. Under the incoming Clinton Administration, the top federal income-tax rate could rise to 36%. That could cause tax-bitten investors to jump into the market. The Municipal Bond Index, published by *The Bond Buyer*, a trade publication, shows a current yield of 6.42%, which is equivalent to a taxable yield of 9.3%, using a 31% federal tax rate. If the rate was hiked to 36%, an investor would have to find a taxable bond yielding 10% to get the same aftertax income.

Also helping the market will be a wave of redemptions of old, high-yielding munis. Bruce Whiteford, head of fixed-income management at Chase Manhattan Corp.'s private bank, expects \$48 billion in municipals to be redeemed. One-fourth of that will come in January alone, he says. The result: lots of investors with cash to deploy in the tax-exempt market. "For 1993, demand will be strong, and municipals will absolutely be a good investment," says Paula Tate, a portfolio manager at Neuberger & Berman. "There's this insatiable demand."

FEWER NEW ISSUES. Investors will have to step lively, though. New-issue volume promises to be far below that of 1992. Local governments have been rushing to refinance high-cost debt issued in the 1980s, which has pushed new-issue volume this year to \$233 billion—well above 1991's \$171 billion, according to the Public Securities Assn. But most of the refinancing is completed, says Andy Nybo, research analyst at the association. He sees \$50 billion in refunding in 1993 vs. \$95 billion in 1992. Scarcer supply typically translates into higher prices.

So where in all this bullishness should investors aim their sights? Stick to medium- and long-term issues, say the pros. Joe Deane, managing director of Shearson Lehman Advisors, says that investors who buy seven-year and longer term securities will get a nice pickup in yield, since the difference between short and long Treasury yields is currently so large. Ten-year yields are now 2.5 per-

sured would be unhurt by such a turn of events. But if voters were to nix payments on leases backing uninsured COs, the owners of those COs could be stuck. Uninsured COs "are in the process of getting a black eye," says Russ Franks, CEO of Fitch Investors Service.

In choosing among the various tax-exempt issues, lots of portfolio managers are looking east and north. Shear-

son's Deane likes New York City bonds so much that he bought \$140 million of them for the funds he manages. He also likes securities from the state of Massachusetts and its towns, because he has confidence in Governor William Weld's ability to pair the battered state economy. Howard D. Sitzer, director of municipal-bond research at Greenwich Partners Inc., is less sanguine about the outlook for major cities such as New York, Philadelphia, and Detroit. But experts agree buyers ought to be choosy about California securities, since that state is in the throes of the recession.

Mixing caution with enthusiasm may be a good way to approach the muni market. For one, the market has already had quite a run since Election Day. Prices are up 60 to 70 basis points. And muni prices could fall if interest rates rise, a possibility if the economy picks up steam. Moreover, President-elect Clinton wants to rebuild American infrastructure. If local governments are then forced to issue new bonds to raise

their share of the financing, a fresh supply of municipals could hit the market, depressing prices.

But the warning signs are outweighed by good news. Experts agree that 1993 ought to be a year to make even hardened municipal-bond investors smile.

By Kelley Holland
New York

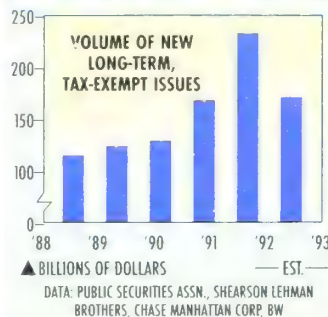


centage points higher than on money-market securities.

At current rates, it doesn't pay to move down on quality. Investors pick up less than 0.6% in yield by opting for a relatively risky BBB-rated bond instead of a AAA security. "What a marvelous time to upgrade portfolios!" says James A. Lebenthal, chairman of municipal-bond dealer Lebenthal & Co. "The value is not in going slumming. Triple-A insured bonds are really on sale."

One area of muni risk getting increased attention involves certificates of participation (COPs), munis backed by lease payments from such facilities as water systems. The risk is that local voters can cancel the lease payments, a move that is being considered in Brevard County, Fla. Holders of COPs that are in-

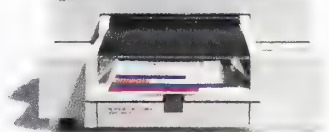
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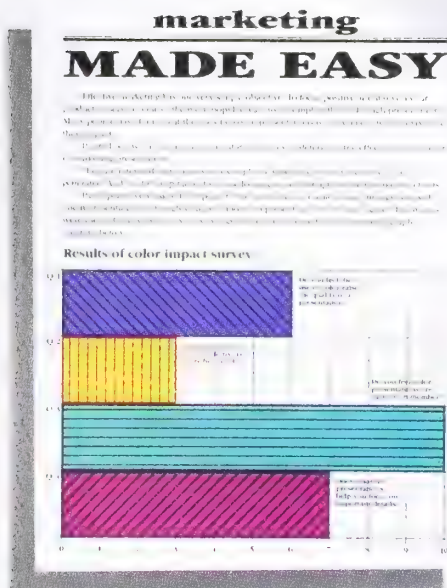
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FOR BETTER AND WORSE, PRICES ARE WED TO CLINTON'S POLICIES

Copper will probably benefit, but pork bellies and oil may trend down

The two key words in the commodity pits in 1993 could well be Bill Clinton.

From wheat to oil to lumber, Clinton's economic, trade, and environmental policies will boost some commodities prices and depress others. If Clintonomics succeeds and the economy recovers robustly, key industrial commodities such as copper will do better. And if Clinton enacts the North American Free Trade Agreement (NAFTA), meat prices could get a boost.

Energy prices, however, stand to lose since Clinton's clean-air proposals could dampen the weak energy markets. In the wheat and soybean markets, the Clinton effect is decidedly mixed. The President-elect is inclined to expand trade ties to the former Soviet Union by making more credit available, which would boost basic farm prices. At the same time, he may reduce trade with China, which would depress prices.

UNFAVORED CHINA? Clinton's moves may get the closest scrutiny in the grain sector, where his policies on trade credits could have the most dramatic effect. If Clinton carries through on his tough-talk campaign rhetoric about revoking China's most-favored-nation status, U.S. farmers could lose large parts of the Chinese market. And if he doesn't ease credit terms on the Commonwealth of Independent States—which failed to make interest payments on a U.S. loan last November—Moscow may find it hard to attract new export guarantees, and that would reduce demand for U.S. grain. If the U.S. extends trade credits, wheat prices could rise above the current \$3.70 a bushel, with corn trading about \$2.10 a bushel and beans around \$5.25 a bushel. In the energy sector, traders will

closely monitor the debate over a possible Clinton carbon tax, which would include a levy on imported petroleum and might serve to boost some domestic production. Barring quick implementation, prices in energy should remain subdued. Despite an improvement in the U.S.

nearly 16% since August as new production has come on line. But prices should climb above \$1 per pound in 1993's second half in anticipation of tighter supplies, according to PaineWebber Inc. analyst Frederick R. Demler.

The Clinton effect could be felt

meat trading if NAFTA passes intact. Prices could rise as ranchers build herds in anticipation of strong Mexican demand. Even without NAFTA, livestock prices could climb some 78¢ per pound. "1992 was marked by an increased demand for pork and beef at the retail level," says A.G. Edwards & Co. analyst Dan Vaught. "One of the questions for 1993 is whether that demand will hold."

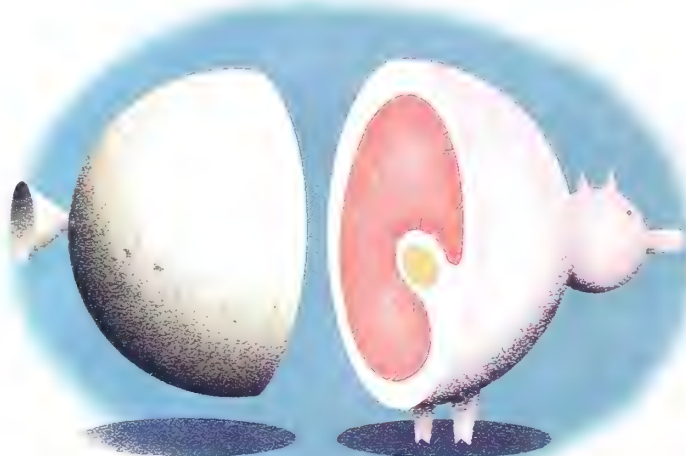
Some traders expect pork prices to head down—perhaps below 30¢ a pound in March—if demand doesn't grow. Both pork and beef prices could be hurt if cheap grain gives ranchers an incentive to raise large herds.

COFFEE PERKS. Other commodities should perform well regardless of the change in Washington. Take cotton. Prices have risen more than 15% since the news that the Chinese crop could be more than 25% below expectations. Large export sales continue and a recovery boosts domestic demand, cotton

prices should keep climbing above 60¢ per pound. Coffee has gained more than 60% since its year-ago lows and could rise to \$1 a pound if Brazil and Colombia keep exports down. And orange juice prices will keep sliding because of large crops in Florida and Brazil.

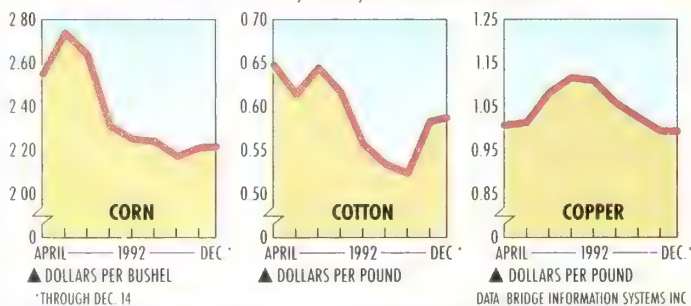
In normal years, traders check weather charts and price movements before making a move. If they're to prosper in 1993, they'll have to check the latest dispatches from Washington first.

By David Greising in Chicago



WILL CLINTON GIVE COMMODITY PRICES A BOOST?

PRICE OF MARCH, 1993, FUTURES CONTRACT



economy, European and Japanese demand remains weak. While crude oil and gasoline prices could trend lower, heating oil prices could rise because of supply shortages in the Northeast.

Copper and lumber will be sensitive to any Clinton tinkering with the economy. Both appear poised for a healthy run. Lumber, already at near-record prices, will continue to climb as builders and dealers increase their inventories in preparation for an expected jump in housing starts. Copper prices have fallen



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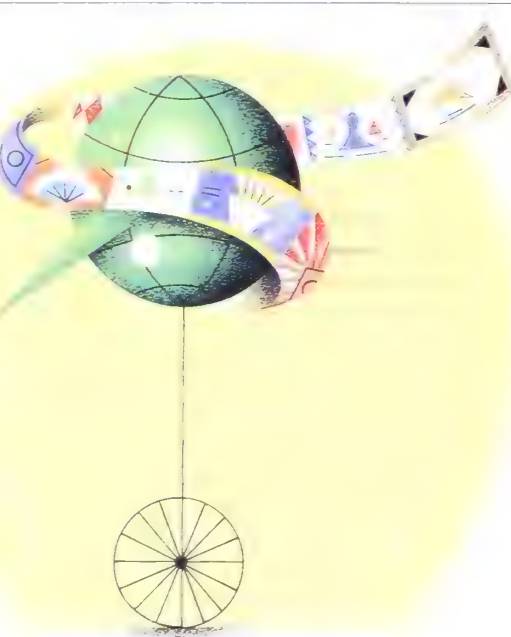
Turmoil in the foreign exchange markets is creating a chance for the nimble to reap rich rewards.

You don't have to tell Sherry Lode that the foreign exchange market offers thrills, chills, and plenty of chances to make a buck. Despite the European Monetary System's implosion and the dollar's wild ride from record lows to six-month highs, Lode's foreign-exchange investors still earned more than 30% on their money in 1992. "We made huge profits on the yen," smiles Lode, executive vice-president of Colorado Commodities Management Corp. Right now, Lode is selling the British pound short, in hopes that its value will fall against the dollar. "Our policy is: 'Just trade,'" she says.

After watching the turmoil on the \$1 trillion-a-day foreign exchange market, many investors are being tempted to do just that. With the dollar expected to climb a further 10% to 15% against foreign currencies as yields abroad fall during 1993, interest in the global money market is likely to keep growing. But this market is hardly the one-way street it was in the 1980s after the U.S. and its industrial allies caused the dollar to be devalued and sent foreign currencies soaring. Volatility is rampant, and it's now common to see the dollar move up or down as much as 10% in a single week.

AVOID CARNAGE. Such rapid swings can earn big profits for nimble traders. But they can trap big-time pros as well as individuals. For example, the Van Eck World Income Fund, one of the best performers among global-yield funds in the first eight months of 1992, turned into a loser when managers failed to anticipate the greenback's October recovery. "We've never had to lower our dividend since 1988," laments Klaus Buescher, managing director of Van Eck Associates. "We're pretty close to having to do so now."

Still, if you're willing to put up with surprises, global money markets offer several interesting investment vehicles. Despite currency risks, foreign bond markets still offer ways to obtain high interest income now and capital gains



later if yields decline. Ten-year German government bonds now yield 7.3%, vs. 6.8% for comparable U.S. Treasuries. And "Germany's economy is falling off quite fast," observes Michael Bullock, chief investment officer of London's Morgan Grenfell & Co. "It's only a question of time before interest rates fall."

Rather than go directly to the currency pits and bond markets, many investors favor professionally managed

funds. Global bond funds, for example, scour the world for the highest yields. And unlike Van Eck World Income, many others have continued to avoid currency-market carnage. The BGI Global Income Fund, a U.S.-based fund managed by Switzerland's Bank Julius Baer, for instance, saw its shares climb by more than 4% in 1992, despite the dollar's surge. While Baer's U.S. investment chief, Patricia J. Moriarty, is buying Dutch and French bonds, half of his \$34 million fund is now invested in the U.S., Canada, and Australia, where 10-year bonds still yield around 9%.

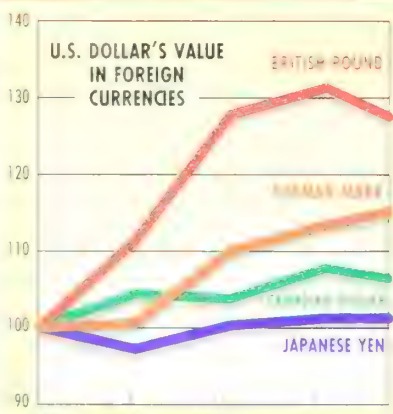
STUNNING RETURNS. Currency funds may appeal to those with even more appetite for adventure. Structured as limited partnerships and offered by many stockbrokers and international banks, these funds invest pri-

marily in foreign exchange and currency futures and options. Many charge high management fees, sometimes approaching 7% of a fund's assets. Nonetheless, some have turned in stunning returns. Since its launch last March, the Shearson Lehman Brothers International Advisors Currency Fund LP has climbed 18%. It tries to guard against losses in any one market by parceling its \$21 million in assets among four highly regarded managers.

So-called managed accounts, such as those provided by Colorado Commodities and others, often appeal to the highest-risk currency investor. These accounts are offered through banks, brokers, and individual managers. But unlike fund managed accounts provide strategies that big investors use to trade directly in futures, options, and currency markets. Colorado, for example, relies on a computer-driven model that tries to spot trends in the pound, yen, and French and Swiss francs. Says Lode: "The market tells us what to do next." Given the recent turmoil, what the market is saying isn't always clear. But that hasn't deterred a growing number of investors from trying to figure it out.

By William Glasgall in New York

THE DOLLAR BOUNCES BACK



▲ INDEX SEPT 1=100

DATA: BRIDGE INFORMATION SYSTEMS INC.

ARE YOU GETTING THE MOST FOR YOUR IRA?

IRA

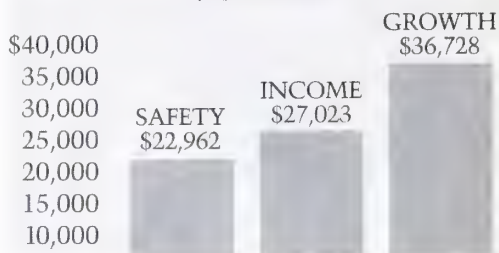
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INCHING DOWN THE PATH TO RECOVERY

Finally, real estate gets some good news—mainly in home investment and commercial REITs

Real estate, long mired hip-deep in woe, is now only knee-deep. And that means long-suffering investors can actually look forward to making money from bricks and mortar. Maybe not a lot and maybe not right away—but hey, it's a start (charts). Home buying, propelled by low mortgage rates and improved consumer confidence, is inching back to prerecession levels. Home prices, soft for several years, are slowly climbing in many areas, and some people are finding they can actually sell their homes for more than what they paid. Commercial buildings, absurdly overproduced in the anything-goes 1980s, remain in bad shape, though in some areas they are showing modest improvement. And securitized property, in the form of real estate investment trusts, continues to do well because many REITs cherry-pick the healthiest holdings to own.

The sunniest news on mortgage interest rates is behind us: Rates are now creeping up moderately. For a 30-year conventional loan, the low point nationally was September's 7.9%. Nowadays, the

rate is around 8.4%. With economic recovery finally kicking in, mortgage rates should bump up a tad more by the end of 1993. Expected low inflation, however, should keep them below 9%. When you consider that rates were almost 10% in 1989, the year before the recession took hold, that's not bad.

Unfortunately, the great opportunity to refinance mortgages has passed. Yet for those unable to shed old high-rate debt in 1992—and who can now scrape together the money to pay the fees, lender's points, and other costs—rates in 1993 should remain low enough to make the exercise worthwhile. The key benchmark is whether going rates are at least

Away from the coasts,
some houses even
have multiple bidders

two percentage points below what the owner currently is paying.

Home sales, which fell into the tank in 1990 and 1991, enjoyed a muted rally in 1992. And 1993 should be better still. The National Association of Realtors projects that sales should hit \$3.5 billion, topping even 1989's decent showing of \$3.4 billion. "We have a lot of pent-up demand from people who were afraid to buy during the recession," says Dallas broker C. Michael Brodie, head of the NAR's Residential Sales Council. That's an obvious relief for sellers. In recent years, there have been horror stories aplenty of houses that languished unsold for months and months.

WASTELAND. Nevertheless, buyers need not worry. No sudden surges in prices are at hand, which would make affording a purchase difficult. Earlier in the recession, inflation actually beat home prices—an almost unheard-of event. Lately, while home appreciation has come back into its own, the increase has been relatively small. According to a survey by Harvard University's Joint

enter for Housing Studies, homeowner costs are at their lowest levels in 5 years.

This is not to say that buyers are being confronted with bargains galore. In the country's midsection, where home prices didn't go crazy during the past decade, moderate price appreciation is now the norm. Some houses even have multiple bidders. Consider Frank andorraine Scandale of Denver, a couple expecting their first baby, who wanted to move from an apartment to a single-family home. This year, the Denver market overall has climbed 25% because of a rocky local economy that has rebounded from its nadir in the mid-1980s, when the oil-and-gas industry collapsed. The Scandales originally wanted a four-bedroom home with a family room on a big lot but had to settle for a three-bedroom bungalow with a small yard. And they were forced into a bidding war to land it. Says Frank Scandale: "We had to compromise."

On the coasts, though, housing remains a wasteland for sellers. "Sales in California are very, very, very depressed and will be for a while," says Leonard Miller, chairman of Lennar Corp., a Miami-based homebuilder with nationwide operations. Home values are falling by one month in the Golden State, and in the Northeast as well. In the Philadelphia region, for instance, the median sales price slumped 9% this year. That's partly because prices spiraled out of sight during the boom times and must adjust to reality. Also, the recession hit the Northeast and California hardest and will linger there longest.

For investors, the grim picture in commercial real estate has some regional right spots. No one expects the vacancy rates in Boston (17%), Manhattan (18%), or Los Angeles (19%) to come down any time before 1996 or 1997. In Washington, D.C. (12%), on the other hand, a solid, government-employment-based economy should bring back the good old days in a year or two. Also, look for improvements in Houston (18%), which, like elsewhere in the Southwest, got creamed early from the oil bust. "Houston has had no new building in even or eight years," says Arthur J. Mirante II, president of Cushman & Wakefield Inc., the commercial property brokers. "When employment picks up, they'll be able to absorb the vacant space easier."

The outlook is better for industrial space, which hasn't suffered as much as offices from overcapacity. Industrial vacancies jumped from 6.4% nationally in late 1989 to 9% by mid-1992, according to CB Commercial Real Estate Group Inc. But as of Sept. 30, they had dropped to 3.6%, a good sign. Retail space is also improving with economic recovery, with

the largest problems lingering in strip shopping centers that aren't anchored by supermarkets. Without these magnets, the small merchants are suffering at the hands of giants such as Wal-Mart Stores Inc. and Home Depot Inc.

SURVIVORS. For individual investors, the best way to play the commercial real estate market has long been to join a pool of others. The popular vehicle for doing this in the 1980s was the real estate limited partnership, which had the added benefit of major tax breaks. After the 1986 tax reform, this tax advantage vanished—along with a lot of RELPs. For investors in still-surviving RELPs who have had trouble selling off their units, relief is in sight. The Securities & Exchange Commission recently began allowing securities brokerages that head RELPs to act as middlemen for limited partners who want to shed their holdings.

A much more appealing method of pool-investing is the REIT, whose shares trade on stock exchanges. Investors in RELPs, the quintessential tax dodge, often didn't care whether the buildings they owned made money or not. That's not the case with REITs, which are fully taxed. The buildings and mortgages they hold depend on delivering tidy earnings. With yields ranging from 6% to 8% yearly, they have proven quite attractive to people fed up with the measly 3% from certificates of deposit. No wonder REIT stock prices have soared in the past two years, topping the Standard & Poor's 500-stock index' performance.

The best-performing REITs tend to be those that concentrate in one area. Health-care trusts, for example, have done very well because of the nation's increasing number of older people. Ditto for apartment REITs in areas of the country that are growing, such as the Southeast. "The only sick man is downtown office buildings," says Barry Greenfield, a vice-president at Fidelity Investments.

Shopping centers have proved a productive REIT specialization. Federal Realty Investment Trust in Bethesda, Md., for instance, focuses on centers in the Washington-New York corridor. President Steven J. Guttman wants to buy centers in strong locations, even if they aren't doing good business now. Federal REIT recently bought down-at-the-heels Ellisburg Shopping Center in Cherry Hill, N.J. This center sits at the intersection of three major thoroughfares. The problem has been that they met in a traffic circle that many motorists avoided because they thought it was hazardous. But recently, the state eliminated

the circle, so Guttman is sprucing up the shopping center. "I'm putting in a bookstore," he says. "I always do that. Bookstores are a good draw, bringing in all kinds of people." Federal REIT's stock is up 30% this year, to \$24 per share.

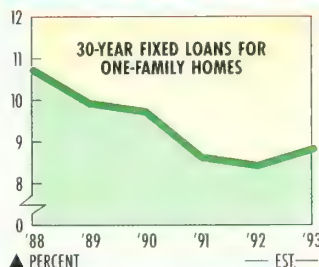
Not all REITs are prospering, however. Dallas' Trammell Crow Real Estate Investors is one that has been suffering for years. Organized in 1985, it specialized in Southwestern industrial buildings in the teeth of the oil slump. "Our market dried up," explains President James Wassell. Although the REIT was able to maintain high occupancies, it did so by lowering rents—and that strategy has blasted earnings. Through Sept. 30 of this year, the REIT has lost \$3.7 million. Wassell says he is tackling the problem by selling off 3 of his 19 properties and using the proceeds to refinance the REIT's high-cost debt.

Real estate people are a congenitally optimistic bunch. Even so, they've had remarkably little to grin

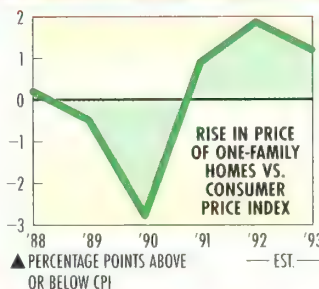
about in the past several years. But now, faint signs of hope are finally springing up. "The industry is recovering," says John A. Vickers, executive vice-president of Tishman Realty and Construction Co. "Slowly."

By Larry Light in New York, with Sandra D. Atchison in Denver

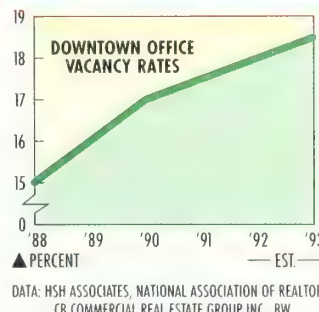
MORTGAGE RATES STAY ATTRACTIVE...



...AND HOME PRICES OUTPACE INFLATION



BUT THE EMPTY-OFFICE PLAGUE PERSISTS



DATA: HSH ASSOCIATES, NATIONAL ASSOCIATION OF REALTORS, CB COMMERCIAL REAL ESTATE GROUP INC., BW

SOME GOLDBUGS NEVER SAY DIE

They're betting Clinton-induced inflation will end the metal's slide

For goldbugs, there may be a light at the end of the tunnel—but it's still a long tunnel. Battered goldbugs hope a recovering economy and Clinton-induced inflation will extract the precious metal from the dumps. But many analysts say that's not likely to happen soon.

Gold continued its five-year slide this year, bobbing between \$328 and \$360 an ounce. Silver had a similar fate. It fell from \$4.06 an ounce to \$3.73 this year. Platinum, the one bright spot, began the year at \$15 an ounce below gold and ended it at \$20 above.

Optimistic gold bulls see a rebound in 1993. "The ray of hope that dealers and miners are looking to," says Bruce L. Kaplan, president of Kaplan & Co., a precious-metals consulting firm, "is the reflation of the economy by Clinton." He expects gold to move as high as \$400 an ounce late in the year.

BETTER VEHICLES. Other analysts, though, say any such reflation won't be felt so soon. "Clinton won't be getting in office until January, his budget won't come out until the end of April, and even if he's as stimulative as can be, it won't show up until '94," says James Steel, a senior commodities analyst at Refco Securities Inc. The guess is that gold will be stuck between \$300 and \$370 for 1993.

The bears argue that gold is a lost cause, and that it no longer has much value as a hedge against inflation and market turbulence. There are now investments that accomplish the same end more effi-

ciently and cheaply. "You switch into another currency or financial futures," says Ted Arnold, a Merrill Lynch & Co. analyst in London.

Gold has other problems. Global recession and relative peace throughout the world have dampened the market. Then there's the persistent supply-and-demand imbalance. Despite record jewelry demand, especially from the Far East, abundant supply is capping prices. The Russians have been selling their gold reserves to raise foreign currency. And central bankers continue to unload gold to raise cash for other investments. Belgian and Canadian banks, among others,

dropped 3 million ounces in the first half of this year, about double last year's central-bank offerings. The trend is troubling some. "Some central bank holdings are about 18 years' supply of gold. The market can't absorb that," says Ian MacDonald, metals manager at Crédit Suisse First Boston Ltd.

What's worse, gold mines continue to slide forward or lock buyers for metal that hasn't yet been mined to protect themselves from falling prices. "They step in on every rally and sell up the

future," says PaineWebber Inc.'s Frederick Demler. "If they didn't, gold would be much higher."

Silver is afflicted by similar troubles. "There's a huge abundance above and below the ground," says Kaplan. The outlook for platinum, though, is brighter. Used in catalytic converters to cut auto emissions, platinum was hampered by the global recession and slow car sales. But the current surplus is dwindling because of cuts in production plans and new demand stemming from European auto-emission standards. The two major producers, Russia and South Africa, are racked with upheavals that

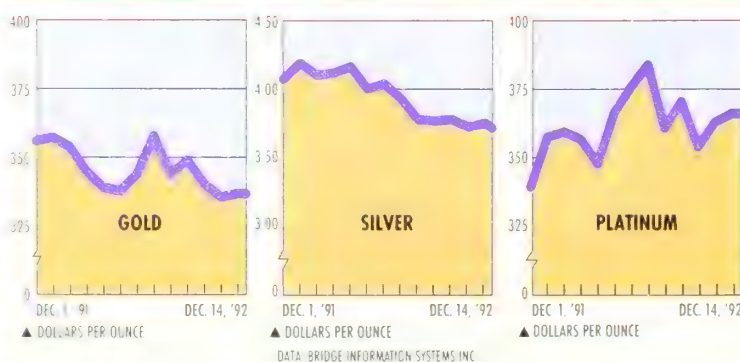
could lead to more supply disruptions, says Steel. "I think we'll see a \$50 premium on gold by the end of the first quarter," he adds.

But for most precious-metals fans, the main event is still gold. Inflation—later rather than sooner—may save it. But for now, the case for gold may be more a matter of faith than hard facts.

By Pam Black in New York



NOT SO PRECIOUS METALS



WINNIPEG, WASHINGTON, DC, VICTORIA, VANCOUVER, VAH, TULSA, TUCSON, TORONTO, TOKYO, UHAI, TAIWAN, SINGAPORE, SHANGHAI, SEOUL, SEATTLE

THE ART LANDSCAPE: A STUDY IN REALISM

All parts of the market are stirring—but at figures that still seem starkly sober

For a quick overview of the art market, try thinking the way an artist might. Banish the thought of blacks, grays, or blues. The outlook looks better than it did a year ago, when prices and volume had shrunk dramatically from their 1980s peaks. But forget bright yellows and reds, too—the market is by no means ebullient. Maybe green should be the dominant color—to signify a little growth. As for the art world's landscape, it's a lot smaller today than a few years back. It's less frenetic and has fewer figures. And the appropriate style? Realism, no doubt.

This new art market is more hospitable to investors than they might think, though—as long as they choose carefully and wait a decent interval before selling. True, the contracted market isn't as liquid as it once was. Yet prices, which have been declining since 1989-90, are leveling off. They may even be moving up in a few areas, such as American paintings and works by Old Masters. Even in contemporary art, a troubled category, few experts forecast further dramatic, across-the-board price drops, and prices for some artists have stabilized.

'SUBDUED.' This fall's bellwether auctions of Impressionist, Modern, and contemporary art at Christie's and Sotheby's in New York provided heartening omens. They brought in nearly \$180 million, the highest in two years. Some 35 paintings changed hands at more than \$1 million apiece—a big improvement over the past two years. And three Impressionist paintings fetched more than \$10 million each, a psychological benchmark not passed since May, 1990. Top honors went to Matisse's *Harmony in Yellow*, which Christie's sold for a record \$14.5 million. "In the U.S., we've seen a lot more interest in buying across the board than we've seen in a while," says Diana D. Brooks, president of Sotheby's North America.



SOTHEBY'S JOHN MARION AUCTIONS A LICHTENSTEIN FOR \$1.8 MILLION

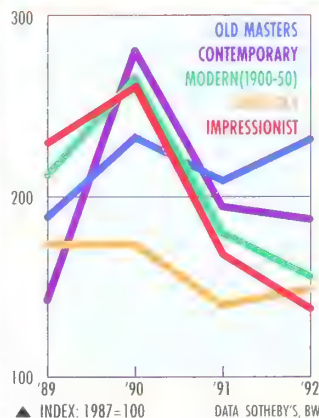
Meanwhile, some art dealers are again buying for inventory. That shows business is picking up in the galleries, too. And more owners seem willing to chance discretionary sales of their art. "People are again talking about whether it makes sense to sell—we've got more vis-its scheduled than we've had in a long time," reports Brooks. That would be the best harbinger of an improved market—because the art world is driven by the supply of fresh material, which has to come from discretionary decisions as well as estates and distress sales. But no one, of course, wants to sell in a down market.

Where do these developments leave investors? "It's still a subdued market, but we're seeing the beginning of an improving market," says Christopher J. Burge, president of Christie's in the U.S. "It's a solid market at 1988 prices."

That isn't a bad place to be. In fact, spells opportunity, provided investors abide by the time-tested rules of buying art: Buy what you know and love aesthetically, not what you merely think will appreciate. Buy quality, since first-rate work by a secondary artist holds its value better than a third-rate piece by a top artist. And buy artists whose careers have been studied and documented by experts. Works of avant-garde artists are likelier to lose value in initial public offerings—they hold the potential for big gains but also a total loss.

One way to avoid that fate lies in purchasing works by Old Masters. They bear little risk: You don't get dramatic price spikes, but you do get fair, steady appreciation. When the overall market nose-dived, Old Master prices fell a bit. Now, they're moving up again. This market is small, and the ven-

PAINTING PRICES: READY TO REBOUND?



est paintings hang on museum walls. But drawings and prints are available and affordable. According to New York dealer David P. Tunick, for \$5,000 to \$10,000 "you can walk away with a solid work of art on paper" by a 17th, 18th, or 19th century European artist such as Charles-Jacques Cochin. Or you can pay, say, \$25,000 for François Boucher's chalk drawing of *Venus and Cupid*.

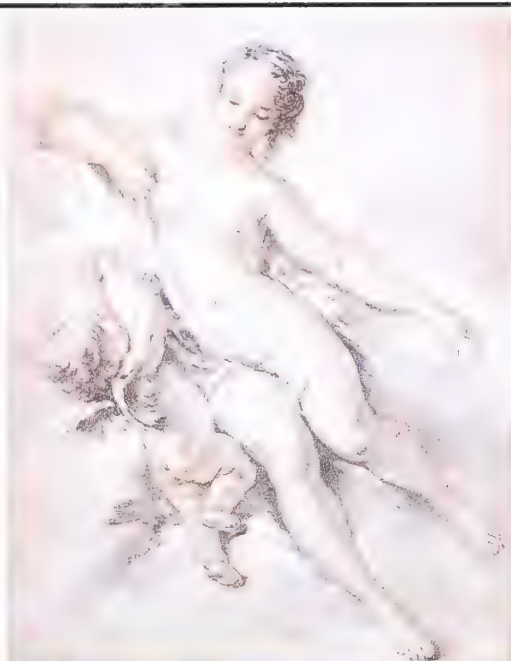
American art seems to be recovering faster than other categories, partly because it declined earlier. Dealers report a big increase in traffic in their galleries; several are buying for stock. Among artists whose works sold well at the fall auctions are Marsden Hartley, Stuart Davis, and Charles Demuth. "There's real optimism in the American market, with a lot of new players as well," says dealer Richard T. York.

After a brief flirtation with foreign buyers, American art is again primarily a U.S. market. But it appears to be getting some new buyers from those who were burned in the contemporary market. American modernists, who painted from 1910 to the 1940s, appeal aesthetically to contemporary collectors. Yet some paintings sell for the same amount some contemporary drawings did a few years back. For example, Oscar Bluemner's *Composition for Color Themes* sells for \$165,000.

The market for Impressionists and Postimpressionists isn't healthy yet. The fall auctions prompted some experts to talk about a turnaround. But only very good paintings are selling well. Prices for the pretty, decorative works favored by the Japanese are soft—and likely to stay there, because so many are held by buyers who've since run into financial trouble. Japanese dealers are trading Impressionist and Postimpressionist works among themselves for 50¢ to 60¢ on the dollar, according to Ann K. Richards Nitze, a private dealer.

LITTLE SHAKIER. As for Modern art, experts say the market hasn't been tested properly—and remains unsettled. Except for Matisse, most of the works on offer by modern artists weren't strong pieces. The contemporary world is even more difficult. "It's a little shakier than the earlier 20th century," says William R. Acquavella, a dealer in Impressionist and Modern art. Nonetheless, he just took on the British realist Lucian Freud, whose paintings usually sell for \$500,000 to \$1.5 million.

Because a lot of the '80s' "hot money" went into contemporary art, these prices probably moved furthest away from what the paintings were actually worth. They are now changing hands at a small fraction of what they brought in the '80s—if at all. At Sotheby's, Roy



BOUCHER'S CHALK OF VENUS AND CUPID GOES FOR ABOUT \$525,000

Lichtenstein's *Girl with Piano* sold for \$1.8 million, below its presale estimate of \$3 million to \$3.5 million. Mark Rothko's *Brown, Black and Blue* brought \$1.1 million, vs. \$3 million in 1990. Andy Warhol's *Race Riot* was gavelled down for \$627,000, a third of what it fetched in 1989. In the galleries, dealers are agreeing to discounts of 20% or more.

For some, the situation represents an opportunity. "We're buying artists we couldn't afford a few years ago," says a collector who bought three paintings this fall. Indeed, many experts—dismissing the '80s as an aberration—now say

that these numbers are the real prices for contemporary artists. It may be safe, then, to buy works by Abstract Expressionists, whose careers are well-documented, and by artists such as Warhol.

LATIN PHASE. The artists of the '70s and '80s are being reevaluated, too. "The aficionados have picked out the leaders, and those artists are great things to buy right now," says art adviser Thea Westreich. She cites Christopher Wool, Cindy Sherman, Robert Gober, Richard Prince, Jeff Koons, and Mike Kelley as among those who will last. "There's a critical mass that says that these people very clearly articulated the cultural and social issues of the decade." Still, such judgments usually take 20 years or so to settle in.

As the '90s progress, Latin American art and the decorative arts seem to be holding strong. For the adventurous, emerging fields include foreign contemporary artists. Asians, for example, are trying to develop overseas markets for their artists.

Nitze cites Japan's Yayoi Kusama, Morimura Yasumasa, and Katsuhiko Funakoshi, plus Korea's Lee-U-Fan, Hoon Kwak, and Woong Kim, as among those likely to go international.

But no art investor should expect prices to return to the levels of the late '80s any time soon. Christie's Burge points out that the market has always taken five years or so to recover from a downfall. So, he notes, "1995 could be quite a good year." Only if you're willing to wait at least that long should art be on your list of investments.

By Judith H. Dobrynski in New York



BLUEMNER'S COMPOSITION FOR COLOR THEMES COSTS \$165,000

AUTOGRAPH HOUNDS ARE HAVING THEIR DAY

The political collectibles market should stay bullish

When the U.S. Court of Appeals ruled recently that Richard M. Nixon merits compensation for the government's seizure of his White House materials, probably only a few interested observers realized what it may cost taxpayers. After all, how much are old audiotapes of muffled conversations worth, especially one with 18 minutes missing?

The answer could be well into seven figures, to collectors of political documents—a group that includes Ross Perot, Barbra Streisand, and the late Malcolm Forbes. As the nation focused on politics in 1992, prices climbed on items tied to Washington. With the nation focusing on a new occupant in the White House, the upward trend should continue.

START SMALL. How high can it go? Last September, a routine estate appraisal uncovered a paragraph written by Abraham Lincoln with the phrase "With malice toward none, with charity for all." Christie's, the auction house, pegged its worth at \$500,000—then sold it to a successful bidder for \$1.3 million. The previous (1991) record for a Lincoln letter was \$748,000. In another auction, slated for Dec. 16, rival Sotheby's hoped to surpass \$500,000 for a page from a Lincoln speech that includes the famed "house divided" and "half slave, half free" phrases.

Your pockets don't have to be as deep as Perot's to play this game. "Serious collectors invest a tremendous amount of money," says Paul Carr, vice-president of the 2,000-member Universal Autograph Collectors Club, in Washington, D.C. "But newcomers can find impressive documents for a few thousand dollars or less." Examples abound in free catalog booklets from Walter R.



*My, America is, well, the whole, now a
little of the new problem—
"A house divided again it stay can we
stand"*
*I believe the government can not stand
permanently, half slave, half free—
As per the letter, being a year ago, and
the original development, how the confirm me.
The not expect the letter to be done
and I do not expect the house to fall, but*

**RARE AUTOGRAPHS AT RENDELL AND A LINCOLN
MANUSCRIPT AT SOTHEBY'S THAT COULD TOP \$500,000**

Benjamin Autographs in Hunter, N.Y. Among them: a Herbert Hoover condolence note to a grieving constituent, priced at \$350.

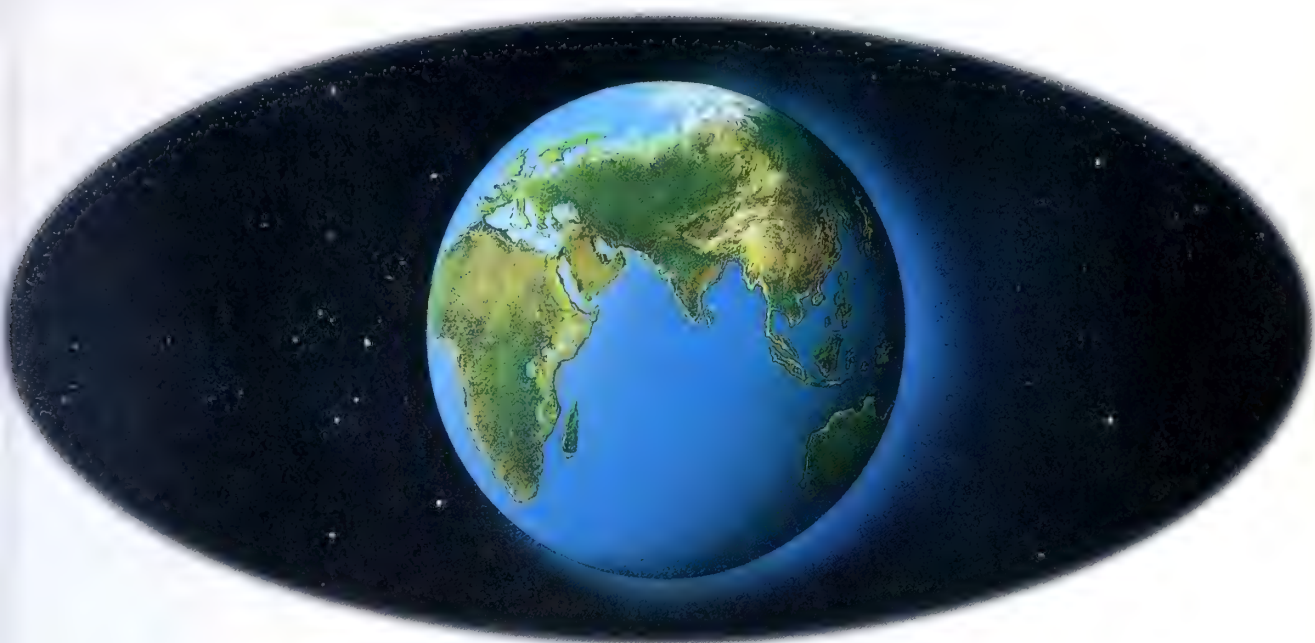
Signatures of Washington, Lincoln, Grant, and the two Roosevelts are most prized by collectors. But a less impressive President's rare scrawl can command a high price, too. William Henry Harrison died after serving only 31 days. "So he didn't get a chance to sign many documents as President," notes Kenneth Rendell, a dealer with galleries in New York and Beverly Hills.

But the value of an autograph or manuscript often depends on factors other than rarity, advises Christopher Jaekel, vice-president of Benjamin Autographs. Two signatures by the same individual can command widely disparate prices. A note signed by then-Senator Hubert Humphrey, for example, sells for \$100; but one signed during Humphrey's tenure as Vice-President can cost several times as much.

BUYER BEWARE. The heightened interest in political items has fueled an increase in the supply of autographs that might be forgeries. Such established dealers as Joseph Rubinfine in West Palm Beach, Fla., and Robert Barchelder in Ambler, Pa., authenticate the documents they sell. "Almost anyone should have doubts about any Presidential letter signed since 1960," says Rendell. About that time, politicians began using an autopen device to ink replicas of a signature on countless copies of a letter. As with any collectible, appreciation is uncertain. But Jaekel sees great potential for financial gain in autographs of black political figures. "A collection with such names as Shirley Chisholm, Malcolm X, and Charles Mosely Braun will be valuable one day," he says.

Unlike fine art, where prices slid during the recession as cash-crunched owners liquidated their holdings, autographs and manuscripts are seldom thrown wholesale on the market and tend to hold their value. Most documents that eventually show up for sale start out in the hands of the writer's family or friends, so they're kept for their personal or sentimental value. And, as in the case of Richard Nixon, some of the best political material never hits the market at all.

By Don Dunn in New York



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▲ Discouraged
natural gas
supplies helped
suppressed
prices but also
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for its software
fueled
Informix's
stellar OTC
performance



HANDBAGS, WINDSHIELD WIPERS, AND NATURAL GAS

1992's biggest moneymakers, along with a small collection of also-rans

For most investors, 1992 has an odd, unfinished quality. The markets proceeded at a hesitant pace as the economy stumbled along, and—until the recent rally—a chart of stock prices has looked like the fever chart of a very unstable patient.

A high-tech success, Informix Corp., is offset by a high-tech loser, Advanced Interventional Systems Inc. A leathercrafts maker is pushed ahead by the economic winds, while a windshield-wiper-blade maker is ripped like a cheap umbrella. That schizophrenia is evident in this annual compendium of the doers and dogs of 1992:

STOCKS

BEST NYSE STOCK: *Tandycrafts Inc.* Its product line may seem prosaic, but there's nothing terribly ordinary about the performance of its shares. With a gain of 237% through Dec. 11, this Fort Worth-based outfit recorded the largest

gain of any New York Stock Exchange company that began the year trading at 5 or more.

Tandycrafts makes and retails leathercraft and home-improvement materials. You name it, they make it so you can make it: 2,000 do-it-yourself items, ranging from belts and buckles to billfolds, footwear, and handbags. One unit sells furniture, while another sells religious books and gifts. So long as the public keeps ratcheting up its discretionary spending, Tandycrafts should continue to do well.

WORST NYSE STOCK: *Gitano Group Inc.* makes "fashion basics"—clothing that is supposed to be stylish and affordable. Well, its stock has sure been affordable lately, having declined 82%, from 18 3/4 to 3 1/4 through Dec. 11.

Gitano has been reeling since 1991, when revenues declined 3.2%. Asset write-downs followed, and the company has been plagued by financial worries.

Discussions about restructuring the company's debt are under way with lenders. That's a hopeful development, but the company's outlook remains threadbare.

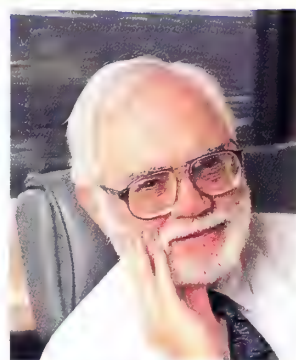
BEST AMEX STOCK: *Jupiter National Inc.*, a closed-end fund and venture-capital investor, is proof of the virtues of buying a closed-end fund at a deep discount from net asset value. At yearend 1991, Jupiter's stock was \$7.13, but its NAV was \$19.56—a mammoth 64% discount. Then, spurred by the success of one of its holdings, Zoll Medical Corp., medical device manufacturer, Jupiter's NAV zoomed 42%, to \$27.78 as of Sep. 30—and the Street has woken up.

At a share price of 28 1/4, Jupiter has climbed 296% in 1992, making it the best Amex stock that began the year at 5 or better. But repeating its 1992 performance will be tough. The stock is now at a premium over NAV—a hazardous position for any closed-end fund, because

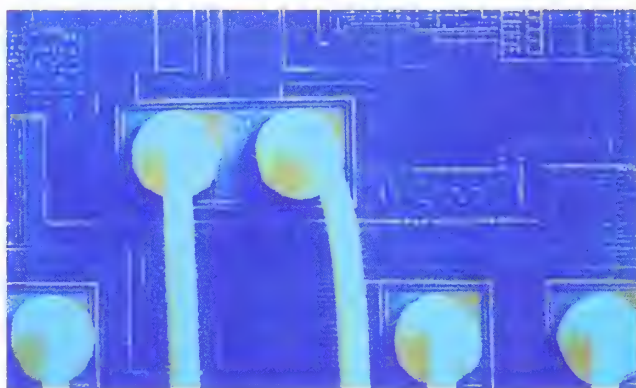


◀ The Hong Kong market's Hang Seng index reached a record high on Nov. 12

▶ Currency trader Tenny Lode's canny deals hit pay dirt



▼ Chipmakers cashed in on shakedowns in the computer industry



market sentiment can easily shift the shares back to a discount.

WORST AMEX STOCK: *Lifetime Products Inc.* makes a variety of automotive products, but its premier item is the super-duper Tripledge windshield wiper blade. Alas, in 1991 the good Lord bowed upon the Northeast an unusually mild winter. Because of that, and generally crummy economic conditions, Lifetime's sales plummeted, and so did its stock, which declined from 5% to 69¢, an 84% decline that puts it at the bottom of the Amex rankings.

Well, the recent cloudburst in the northeast may persuade motorists to buy Tripledge blades. And sunnier economic skies may boost the rest of the company's product line.

BEST OTC STOCK: *Informix Corp.* is a fast-growing information-processing company with an increasing number of listings on Wall Street. And how. On the strength of accelerating sales and earnings, and cheerleading by major brokerages, Informix stock climbed 373% through Dec. 11.

Informix develops and supports relational data-base management systems as well as office-automation software. Despite the growth of its share price, the stock may see further gains ahead if its earnings stay on track. With analysts predicting that profits will ring in at

\$1.75 or so a share in 1993, Informix is trading at a hardly stratospheric price of 18.

WORST OTC STOCK: *Advanced Interventional Systems Inc.*, on the surface, looks like a winner. It has a hot new product in the coronary-care market—a laser device that removes plaque deposits from artery walls. But its stock has been a bummer since it went public a year ago at 13. It has declined 84% in the year to date.

Advanced's sales have come in well below analysts' estimates—a sure way of antagonizing the Street—and in October the company cut 15% of its work force, saying that the Food & Drug Administration was likely to delay approval of its new line of fiber-optic catheters.

BEST STOCK GROUP: *Semiconductors.* Ironical, isn't it? It has been a horrific year for computer vendors generally and a downright nightmarish time for IBM. But makers of semiconductors are riding high. Semiconductors are commodity products, and while price wars wrench the computer makers, higher unit volume has benefited the big semiconductor manufacturers, who are cashing in on economies of scale.

The result has been chip heaven for Intel, Advanced Micro Devices, Motorola, and other semiconductor manufacturers. Their shares have climbed 54%

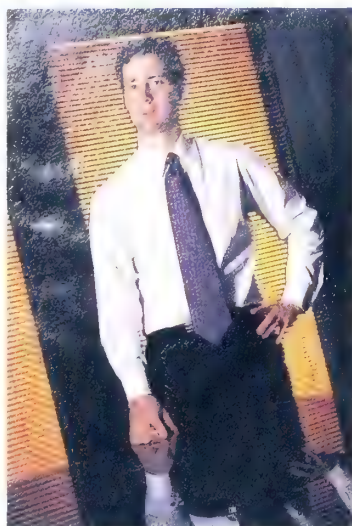
through Dec. 11, and they are a good bet to do well in the year ahead. "Semiconductors will continue to do well as a basic industry—a cyclical phenomenon," says Edward M. Kerschner, chief investment strategist at PaineWebber Inc.

WORST STOCK GROUP: *Hospital management companies.* Consolidations over the years have greatly reduced the number of large, publicly held hospital companies. And the performance of the survivors' stock prices has not been very rewarding of late. Shares of the large management companies—Humana, National Medical Enterprises, and Community Psychiatric Centers—declined 25% in 1992, the worst of any stock group.

Hospital companies' profitability has long been hampered by medicare and medicaid cost controls. And fiscal restraints are likely to get a lot worse before they get better (if ever). Meanwhile, margins are narrowing and admission rates, curtailed by federal restrictions, are going nowhere.

PEOPLE

BEST EQUITY FUND MANAGER: *David Ellison.* Here's a quick course in how to run the best-performing equity mutual fund of 1992: Buy savings and loans. Period. Thrifts were on the comeback trail, rebounding from the Sturm und Drang days of yesteryear. So it was no



▲ Bond fund manager Michael Rosen got good mileage out of convertibles

► Tandy's no-frills products appealed to cautious consumers



surprise that the best fund was the Fidelity Select Savings & Loan Fund, which buys S&Ls and only S&Ls. It gained 51.8% through Dec. 11.

The 34-year-old Ellison, a 10-year veteran of Fidelity's research apparatus, looks for companies with low price-to-book ratios and abating asset-quality problems. To weed out the, well, garbage, he visits companies and talks with management. But most of all, asset safety is in numbers. "That's why we own a lot of companies," he points out.

BEST BOND FUND MANAGER: *Michael S. Rosen.* The Rochester Convertible fund, up 27.5% in 1992, is hardly a household name in mutual funds. And that's a shame, because convertibles are tailor-made for a queasy stock market and a low-interest-rate environment. They pay a handsome rate of interest and let holders convert their shares on often favorable terms. "It's like getting the fruit off the tree while watching it grow," says the 31-year-old Rosen.

Rosen's portfolio is highly diversified, with such gems as ADT Ltd. convertible bonds. They can be sold back to the company in 1994 at about 20% more than their recent price and meanwhile pay a 6% coupon. "As long as ADT is breathing in '94, it's a no-brainer," exults Rosen.

BEST COMMODITY FUND MANAGER: *Tenny Lode.* Don't sell Tenny Lode

short. No, leave the shorting to him. Turmoil in the currency markets made 1992 a crummy year for many futures traders, but Lode rose above the crowd by going long and short with alacrity. His firm, Colorado Commodities Management Corp. (page 106), racked up a 54.7% gain last year, the top performance of any commodity fund manager for 1992.

Colorado manages \$130 million in currencies. With Lode at the helm, the company seized on big jumps by the British pound and Swiss franc early in 1992. His biggest coup was selling the pound short in September, just before the British government disengaged from Europe's exchange-rate system and sterling tumbled. A knack for math helps: With doctorates in physics and computer science, Lode developed a system that uses abstruse equations to make sense out of price movements. "We crank up the computer each day, and out come the trading signals," says Lode. And in '92, it seems, Lode's electronic brain found the mother lode.

MARKETS

BEST OVERSEAS MARKET: *Hong Kong.* The clock is ticking in Hong Kong, and the consensus seems to be "better alive—and red." In five years, this British crown colony goes back to China, for better or worse. For most of this year, it

has been a lot better than worse: The Hang Seng index climbed to a record high on Nov. 12, and through Dec. 1 the market is up 22% (page 50).

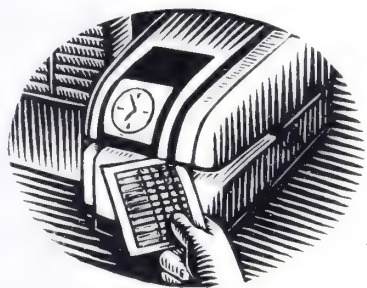
In November, after reaching its high, Hong Kong sustained a sell-off when China threatened to abrogate the Sino-British joint declaration on the return of the colony. But with markets on the mainland still in their infancy, Hong Kong remains the best way to play the China market.

BEST COMMODITY: *Natural gas* really exploded in 1992. Thank the recession for that—and one of history's worst hurricanes. Gas began the year near its low of \$1.04 per million Btus, as the sluggish economy and warm winter weather hurt prices. Then came September, when Hurricane Andrew disrupted supplies of the Gulf Coast and prices jumped to \$2.79. They're now back to \$2.11.

But don't bet your life on a repeat. "It would be very difficult to beat the dramatic price swings of 1992," says Richard Beale, an energy analyst with Shearson Lehman Brothers Inc. With supplies back to normal levels, prices will reflect more temperate weather and economic patterns and may drift toward as low as around \$1.50 during the winter. It may take a blizzard, or worse, to get the gas market cooking with you-know-what.

By Gary Weiss in New York, with David Greising in Chicago

Another case for USF&G: Birmingham, AL. July, 1992



A woodworker has a terrible accident on the job and loses partial use of his hand.

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HERE'S TO MAKING '93 THE YEAR OF PICKING WISELY

A compilation of stats and analyses to help you find the winners among 900 companies

For months, the recovery has been as erratic as island weather—bright and cheerful one hour, stormy the next. Now, it looks as if sunny days are here—at least for a while. At since the market has already shot up 47% over the last two years, you might want to do a little homework before trading on the good news. To help you pick winners, BUSINESS WEEK has compiled its annual fact-filled Investment Outlook Scoreboard.

The Scoreboard is divided into 24 industry groups, from aerospace to utili-

ties. It highlights the track records of 900 public companies. Put together by Standard & Poor's Compustat Services Inc., this handy compendium includes such statistical guides as price-earnings multiples and per-share book values.

Our Scoreboard goes beyond providing raw data. Thanks to IBES Inc., a unit of Citicorp that tracks the opinions of securities analysts, the Scoreboard offers consensus forecasts from 2,500 analysts on the prospects for each company and its industry.

Let's start with the front-running in-

dustries for 1993. According to IBES, analysts foresee cars and trucks as the big earnings gainers. That would be a change from last year's Scoreboard, when cars and trucks were projected to be among the biggest losers. The surveyed analysts look askance at the airline industry in 1993, as well as electrical and electronic companies and the telecommunications industry. Overall, they predict a 33% profit rise, vs. 1992's 35% earnings gain.

OPPORTUNITIES. Scrutinizing the merits and demerits of individual companies takes more work. To make the task palatable, BUSINESS WEEK has developed six useful benchmarks that can often identify potentially attractive opportunities. We have then sifted through the heap to select and rank those issues most worthy of your attention (table). A rather straightforward strategy for stock-picking is to target those companies likely to rack up earnings gains. At the top of our list for 1993 is energy-producer Amerada Hess, which should benefit from rising natural gas and residual fuel prices, according to one analyst. Still, these numbers should be used with care. While Amerada's earnings are expected to rise an amazing 735% in 1993, that would leave them at just \$1.67 per share—not much more than 1991's per-share earnings of \$1.04.

Yield is another benchmark to use in choosing among stocks. In a bear market, dividend payments can be a nice hedge. And in a bull market, they can sweeten the gains. This year's list of top yielders is dominated by utilities issues, with a petrochemical company thrown in for good measure. But high yields can be deceptive. Since yield figures reflect dividends as a percentage of stock price, a stock that has stumbled badly can have both a lofty yield and a cloudy outlook. IBM, which said on Dec. 15 it might have to cut its dividend, is among the most prominent of current examples.

Book value per share is a time-honored method to find diamonds in the rough. It is calculated by subtracting liabilities from assets and then dividing the result by the number of common shares outstanding. Stocks whose shares are selling significantly below book value could be bargains. Yet, as in the case

WHAT THE ANALYSTS EXPECT: INDUSTRY GROUP WINNERS AND LOSERS

1992

THE STRONGEST

Earnings change
from 1991

BROADCASTING	566%
DRUG DISTRIBUTION	459
SEMICONDUCTORS	436
CONGLOMERATES	253
TELECOMMUNICATION SERVICES	176
BANKS—EAST	168
BANKS—WEST & SOUTHWEST	151
SPECIAL MACHINERY	148
BANKS—SOUTH & SOUTHEAST	116
TRANSPORTATION SERVICES	97

1993

THE STRONGEST

Earnings change
from 1992

CARS & TRUCKS	537%
FOREST PRODUCTS	521
COMPUTERS & PERIPHERALS	226
ALUMINUM	118
TEXTILES	98
COAL	85
AUTO PARTS	66
PAPER	64
MACHINE & HAND TOOLS	63
APPLIANCES & HOME FURNISHINGS	62

THE WEAKEST

ALUMINUM	-29%
CONSTRUCTION & ENGINEERING	-20
INSURANCE	-16
FINANCIAL SERVICES	-12
COMPUTERS & PERIPHERALS	-11
PETROLEUM SERVICES	-8
PAPER	-5
FOOD PROCESSING	-1
FOOD DISTRIBUTION	0
OIL & GAS	1

THE WEAKEST

ELECTRIC UTILITIES	8%
TELEPHONE COMPANIES	8
BEVERAGES	14
TOBACCO	14
BANKS—EAST	14
GENERAL MANUFACTURING	15
PRINTING & ADVERTISING	15
BANKS—SOUTH & SOUTHEAST	15
GLASS CONTAINERS	15
DRUG & RESEARCH	16

Because of actual or estimated net losses in 1991, 1992, or 1993, earnings gains or losses cannot be meaningfully calculated on a percentage basis for airlines, auto parts makers, building materials manufacturers, car and truck makers, forest products makers, gas utilities, machine and hand tool makers, pollution control manufacturers, railroads, savings and loan companies, steelmakers, and textile manufacturers.

DATA: INSTITUTIONAL BROKERS ESTIMATE SYSTEM, STANDARD & POOR'S COMPUSTAT SERVICES INC.

EARNINGS OUTLOOK

of yield, selling below book can be a red flag, which is the case with most of the companies on this year's list. A number have had financial troubles lately. The trick is to find companies in which the bad news is short-term and the underlying fundamentals are strong.

A third bottom-fishing strategy that can cut both ways is looking for low price-to-earnings ratios. For instance, Coast Savings Financial Inc., which tops the list this year, is still threaten-

ed by problem real estate loans.

Looking for companies that haven't been discovered by institutional investors can often produce superior returns. If an issue's prospects look good and the pros do focus in on it, it could be in for a sharp upward ride. Yet, lack of institutional interest could also just be a sign that most of the outstanding common stock is owned by an individual—such as Ted Turner in the case of Turner Broadcasting System Inc. There just isn't

stock available to make it worthwhile for institutions. Either way, the shares aren't likely to be buffeted by volatility inducing program trading, a nice plus.

The Scoreboard may only be a rough guide to investing, but it's a good place to start your research. As the economy continues to brighten in 1993, you can avoid getting burned if you keep some statistical sunscreen handy.

By Laurel Touby, with Fred F. Jespersen in New York

A MENU OF INVESTMENT OPPORTUNITIES

But be careful. Though the numbers below may seem enticing, unusually high or low percentages may be a sign of trouble

HIGH HOPES FOR EARNINGS PER SHARE

Looking at the bottom line? These companies' earnings are forecast to move smartly in 1993

	Percent change 1992-93
AMERADA HESS	735%
GOODRICH (B. F.)	586
TELE-COMMUNICATIONS	567
TEXAS INDUSTRIES	561
VARIETY	546
DWG	386
SCI SYSTEMS	378
HUDSON FOODS	360
LYONDELL PETROCHEMICAL	342
PENN TRAFFIC	331
FORD MOTOR	323
COMDISCO	310

STOCKS SELLING WAY BELOW BOOK VALUE

Bargain hunters take note. The stock price of these companies as a percentage of book is at the bottom

	Percent
GLENFED	5%
CALFED	6
GM HUGHES ELECTRONICS	26
PRESTON	29
IMO INDUSTRIES	30
CRYSTAL BRANDS	36
ROHR	38
JWP	40
DIME SAVINGS BANK	42
COAST SAVINGS FINANCIAL	42
MCDONNELL DOUGLAS	46
CROWN CENTRAL PETROLEUM	48

COMPANIES WITH THE HIGHEST YIELD

If the goal is income, these companies pay among the highest annual dividends as a percent of stock price

	Percent
CENTERIOR ENERGY	8.4%
OKLAHOMA GAS & ELECTRIC	8.2
PACIFICORP	7.9
AMERICAN ELECTRIC POWER	7.7
PUBLIC SERVICE ENTERPRISE GROUP	7.4
LYONDELL PETROCHEMICAL	7.3
PUBLIC SERVICE CO. OF COLORADO	7.2
FREEPORT McMoRAN	7.2
TEXAS UTILITIES	7.1
IBM	7.1
NEW YORK STATE ELECTRIC & GAS	7.0
FPL GROUP	7.0

STOCKS THE INSTITUTIONS RARELY HOLD

Unpopular—or just overlooked? Either way, if the institutions suddenly take notice, prices could rise

	Percent of shares held by institutions	Number of institutions holding
INGLES MARKETS	3%	16
AMERICA WEST AIRLINES	4	16
FIGGIE INTERNATIONAL	4	31
TURNER BROADCASTING	4	44
DAIRY MART	5	11
FOOD LION	6	92
HUDSON FOODS	7	24
VIACOM	7	102
ICH	8	37
SPIEGEL	8	44
ARCO CHEMICAL	8	113
CROWN CENTRAL PETROLEUM	9	28
AVERAGE OF 900 COMPANIES	53%	258

THE LOWEST PRICE-EARNINGS RATIOS

Prices of these stocks compared to 1993 forecast earnings-per-share suggest unrecognized values. Negative earnings-per-share estimates excluded

	Ratio
COAST SAVINGS FINANCIAL	4.3
ROHR	5.1
MCDONNELL DOUGLAS	5.6
THIOKOL	5.7
MICROAGE	5.8
RISER FOODS	5.8
SEAGATE TECHNOLOGY	6.0
CRYSTAL BRANDS	6.0
NORTHROP	6.2
THORN APPLE VALLEY	6.3
BINDLEY WESTERN INDUSTRIES	6.4
UNISYS	6.5

FORECASTERS AGREE LEAST ABOUT THESE COMPANIES

Uncertainty could spell opportunity. The 1993 earnings-per-share estimates range all over the lot for these stocks. Example: Estimates for Bowater range from a profit of 66¢ to a loss of 52¢

	Consensus for 1993 Cents per share	Variation in forecasts
BOWATER	7	843%
NAVISTAR INTERNATIONAL	8	387
L. A. GEAR	19	284
ARMCO	15	260
INLAND STEEL	37	224
KAISER ALUMINUM	30	183
STONE CONTAINER	39	159
AMAX	40	145
ALASKA AIR GROUP	56	130
DATA GENERAL	37	130
CRYSTAL BRANDS	83	125
BETHLEHEM STEEL	57	117

DATA: AS OF NOV. 30, INSTITUTIONAL BROKERS ESTIMATE SYSTEM, STANDARD & POOR'S COMPUSTAT SERVICES INC.

INVESTMENT OUTLOOK SCOREBOARD

1993

GLOSSARY

Y: Number of the month in which company's fiscal year ends.

Book value per share: Sum of common stock at nominal balance-sheet value, capital surplus, and retained earnings as shown in company accounts, divided by number of shares outstanding.

P/E ratio: Nov. 30 stock price divided by estimated 1992 earnings.

Dividend rate: Indicated annual payment based on latest quarterly dividend plus any recurring extra or special yearend dividends.

Yield: Indicated annual dividend as a percent of Nov. 30 stock price.

Shares outstanding: Millions of common shares outstanding as of company's latest available financial report, excluding treasury shares.

Market value: Percentage change in total market value of the company's most widely held common stock issue since Jan. 1, 1992.

Institutional holdings: Percentage of outstanding common shares held by banks, insurance and investment companies, colleges, and pension funds, and the number of such institutions.

Turnover: Percentage of outstanding shares changing hands in 1992.

Earnings per share: Primary earnings per share—net income (including proceeds from

certain convertible securities, warrants, and options that are common-stock equivalents, but excluding extraordinary profit or loss items) divided by number of common and common-equivalent shares.

Earnings per share estimates: Analysts' consensus estimates for 1992 and 1993 compiled by Institutional Brokers Estimate System. Trend estimate, based on pattern of past five years, compiled by Standard & Poor's Compustat Services.

Variation: The percentage by which two-thirds of the 1993 earnings estimates are above or below the average estimate. The lower this figure is, the more analysts agree on their estimates.

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST.	1992 DIVI- DEND RATE	YIELD %	SHRS. OUT. MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS	
									%	NUMBER					IBES CON- SENSUS	VARIA- TION %
ALL-INDUSTRY AVERAGE		46	26	22	0.79	2.18	96.5	16	53	258	73.2	1.64	2.22	3.08	2.96	15.0
AEROSPACE																
INDUSTRY AVERAGE		38	38	19	1.12	3.06	64.3	-4	57	253	66.9	3.33	4.05	4.79	4.72	6.9
Boeing	12	35	27	7	1.00	2.85	339.3	-27	43	762	76.5	4.56	4.83	7.31	4.94	5.3
GenCorp	11	11	7	10	0.60	5.65	31.7	-6	52	119	78.6	1.00	1.11	1.43	1.21	7.4
General Dynamics	12	97	56	14	1.60	1.65	29.5	27	47	241	131.4	8.93	6.72	6.73	8.94	5.8
Grumman	12	23	30	8	1.00	4.42	33.5	30	36	166	30.7	2.88	2.99	4.57	2.83	11.7
Lockheed	12	50	42	9	2.12	4.25	61.0	8	93	273	42.0	4.86	5.49	3.55	5.94	3.2
Martin Marietta	12	63	40	9	1.68	2.67	47.3	1	68	342	58.1	6.30	7.35	8.04	7.97	3.6
McDonnell Douglas	12	46	100	6	1.40	3.03	39.1	-36	42	203	116.1	9.25	7.49	7.91	8.16	14.1
Northrop	12	29	26	6	1.20	4.19	47.2	9	60	195	30.9	5.69	4.72	7.11	4.69	4.9
Rohr	07	10	26	125	0.00	0.00	17.8	-52	58	78	92.0	1.74	0.08*	0.18	1.98	10.1
Sequa	12	36	73	19	0.60	1.65	9.7	-14	35	68	19.0	1.24	1.90	1.23	3.36	7.4
Sundstrand	12	38	14	13	1.20	3.15	36.1	3	70	168	65.1	3.02	2.98	4.89	3.46	4.6
Thiokol	06	18	20	6	0.40	2.27	20.0	17	65	124	63.2	2.75	3.12*	NA	3.15	2.2
United Technologies	12	45	29	11	1.80(c)	4.01	123.7	-16	73	555	66.5	-8.91	3.93	4.49	4.73	9.3
AUTOMOTIVE																
INDUSTRY AVERAGE		37	23	22	0.73	1.84	124.7	43	51	259	68.9	-1.02	1.61	1.28	2.95	32.4
CARS & TRUCKS GROUP AVERAGE		33	29	36	0.80	2.00	355.0	46	49	448	80.5	-3.09	0.40	0.71	2.55	96.7
Chrysler	12	30	24	22	0.60	2.02	292.8	154	59	333	133.3	-2.22	1.36	0.38	3.01	16.6
Ford Motor	12	42	47	57	1.60	3.81	487.8	51	57	719	75.7	-4.79	0.74	0.46	3.13	21.1
General Motors	12	32	44	NM	0.80	2.48	706.7	27	40	807	70.0	-8.85	-1.47	NA	2.02	42.1
Navistar International	10	2	1	NM	0.00	0.00	254.0	-23	43	188	53.0	-0.77	-0.70*	NA	0.08	387.5
Paccar	12	59	31	29	1.00	1.71	33.8	21	47	193	70.3	1.17	2.05	1.28	4.53	16.1
PARTS & EQUIPMENT GROUP AVERAGE		34	20	19	0.73	2.03	28.7	48	50	152	63.5	-0.79	1.75	1.09	2.91	8.5
Arvin Industries	12	30	24	17	0.68	2.29	19.2	38	50	120	67.8	0.75	1.76	1.05	2.35	3.8
Cummins Engine	12	76	38	22	0.20	0.26	17.3	64	53	201	114.2	-4.96	3.52	NA	6.96	17.8
Dana	12	43	26	25	1.60	3.73	45.9	72	71	283	64.3	0.33	1.72	0.61	2.67	7.9
Eaton	12	75	36	18	2.20	2.95	34.6	17	67	303	57.7	1.84	4.16	2.71	5.75	10.6
Echlin	08	21	12	18	0.70	3.37	56.2	45	78	266	79.9	0.75	1.15*	0.93	1.34	4.5
Federal-Mogul	12	17	9	28	0.48	2.82	22.4	16	54	82	48.6	-1.08	0.60	0.27	1.17	14.5
Masco Industries	12	9	6	20	0.00	0.00	59.5	95	10	64	49.7	-0.31	0.47	0.49	0.84	8.3
Smith (A.O.)	12	33	30	12	0.80	2.41	10.0	133	40	61	58.5	0.20	2.87	1.12	3.79	8.7
Standard Products	06	26	14	12	0.64	2.44	12.1	31	59	102	47.3	-2.06	2.24*	1.58	2.67	5.2
Terex	12	8	3	NM	0.00	0.00	9.9	-35	20	35	46.8	-3.37	-1.04	NA	1.53	3.3

Notes: *Actual, not estimated data. NA = not available. NM = not meaningful. (a) Shares outstanding as of fiscal yearend. (b) Actual and estimated EPS figures are fully diluted. (c) Dividend rate excludes a nonrecurring extra or special yearend dividend. (d) Company pays a recurring stock dividend. Data compiled by Standard & Poor's Compustat Services Inc. from sources such as statistical services, newspapers, registration statements, and company reports that SPCS believes to be reliable but that are not guaranteed by either SPCS or BUSINESS WEEK to correctness or completeness. This material is not an offer to buy or sell any security. Additional data: Institutional Brokers Estimate System, Vickers Stock Research Corp.

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	1992 TURN-OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS IBES CONSENSUS	VARIATION %
(c) TIME & RUBBER															
GROUP AVERAGE		56	20	20	0.59	0.97	60.9	23	60	304	67.8	1.69	3.16	2.34	3.77
Bandag	12	62	12	20	0.60	0.97	27.5	2	26	193	28.6	2.86	3.12	3.48	3.49
Cooper Tire & Rubber	12	33	6	25	0.18	0.55	83.5	30	79	293	54.1	0.96	1.33	1.66	1.56
Goodyear Tire & Rubber	12	72	42	14	1.00	1.39	71.8	36	75	427	120.8	1.24	5.02	1.89	6.25
3 BANKS															
INDUSTRY AVERAGE		40	26	13	1.17	2.82	97.0	57	56	279	75.7	1.65	3.27	4.42	3.90
(a) BANKS - EAST															
GROUP AVERAGE		36	24	13	1.01	2.43	112.7	74	55	296	87.9	1.14	3.05	6.32	3.49
Bank of Boston	12	25	20	11	0.10	0.40	84.3	146	60	284	153.8	-0.64	2.25	4.61	2.54
Bank of New York	12	52	38	12	1.52	2.92	79.9	92	77	307	74.9	1.36(b)	4.18	2.26	4.92
Bankers Trust New York	12	65	40	8	2.80	4.29	83.0	3	75	463	56.4	7.75	8.35	NM	8.50
Chase Manhattan	12	27	32	9	1.20	4.38	153.7	74	62	325	127.2	3.12	3.11	NA	3.59
Chemical Banking	12	38	32	11	1.20	3.20	245.5	136	73	527	111.9	0.11	3.43	0.34	4.42
Citicorp	12	19	22	22	0.00	0.00	363.7	96	51	369	115.1	-3.22	0.87	0.37	2.00
CoreStates Financial	12	53	30	11	2.16	4.09	58.1	17	55	309	111.2	4.19	4.62	3.80	5.05
First Fidelity Bancorporation	12	41	27	11	1.32	3.21	71.3	28	43	249	42.3	3.37	3.76	6.02	4.16
Fleet Financial Group	12	33	19	19	0.90	2.74	122.4	34	56	290	44.4	0.67	1.77	1.06	2.88
KeyCorp	12	37	18	12	1.04	2.83	75.1	31	62	279	52.1	2.57	3.12	3.49	3.62
Mellon Bank	12	49	37	8	1.40	2.86	53.9	48	59	299	73.3	4.66	6.01	7.11	4.81
Meridian Bancorp	12	30	20	12	1.20	4.05	44.7	26	40	146	82.7	2.56	2.57	2.16	2.82
Midlantic	12	17	17	NM	0.00	0.00	46.0	357	25	61	217.6	-14.36	-0.08	NA	1.16
MNC Financial	12	12	14	NM	0.00	0.00	89.5	152	27	103	115.6	-0.89	0.01	0.01	0.50
Morgan (J. P.)	12	62	33	10	2.18	3.51	191.0	-9	68	736	69.2	5.63	6.30	NM	6.14
PNC Financial	12	29	16	12	1.14	4.00	222.9	26	59	410	35.9	1.98	2.35	1.50	2.59
Republic New York	12	46	32	11	1.00	2.19	52.3	-2	53	165	34.8	3.95	4.28	6.27	4.66
Shawmut National	12	17	14	19	0.00	0.00	91.6	132	62	214	97.4	-2.35	0.93	NA	1.49
State Street Boston	12	43	12	21	0.44	1.03	75.0	34	69	267	95.5	1.81(b)	2.05	2.34	2.33
UJB Financial	12	21	17	20	0.60	2.87	50.5	57	25	110	46.4	0.45	1.07	0.55	1.61
(b) BANKS - MIDWEST															
GROUP AVERAGE		42	26	12	1.34	3.28	78.1	45	53	250	57.1	2.48	3.34	3.48	4.09
Banc One	12	50	20	14	1.28	2.59	207.9	17	57	553	47.4	2.91	3.43	3.86	3.85
Boatmen's Bancshares	12	52	38	11	2.24	4.32	40.5	19	51	265	78.6	4.07	4.84	4.90	5.28
Comerica	12	64	34	12	1.88	2.94	57.0	117	60	284	40.3	5.01(b)	5.43	6.40	6.47
Continental Bank	12	20	23	7	0.60	3.00	53.9	114	54	140	133.6	-2.03	2.75	1.46	2.74
First Bank System	12	27	16	11	0.90	3.40	80.2	13	56	200	41.6	2.13(b)	2.46	3.29	2.61
First Chicago	12	35	33	NM	1.20	3.45	79.8	64	69	288	90.2	1.15	-0.12	NA	4.00
First of America Bank	12	35	22	11	1.40	3.96	57.0	90	29	173	22.4	3.24(b)	3.35	3.47	3.92
Firststar	12	29	16	11	0.88	3.01	62.6	24	33	157	23.8	2.14	2.59	2.38	2.84
Huntington Bancshares	12	20	12	11	0.72	3.56	77.0	29	21	119	28.9	1.52	1.77	1.96	2.07
Michigan National	12	49	54	12	2.00	4.07	14.8	20	57	99	124.3	3.36	4.24	3.44	5.12
National City	12	48	28	11	1.88	3.94	78.5	66	72	277	31.6	3.62	4.18	4.71	4.78
NBD Bancorp	12	30	19	11	1.08	3.60	129.4	14	42	285	32.8	2.49	2.62	3.08	2.91
Northern Trust	12	64	23	16	0.96	1.49	34.9	30	67	186	48.9	3.43	3.96	3.86	4.40
Norwest	12	42	19	12	1.16	2.74	139.7	25	75	469	40.0	2.95	3.48	2.99	3.93
Society	12	62	30	12	1.96	3.15	58.1	26	48	261	72.0	1.22	5.06	2.87	6.41
(c) BANKS - SOUTH & SOUTHEAST															
GROUP AVERAGE		43	26	13	1.28	3.00	96.0	39	53	290	59.0	1.59	3.44	2.97	3.96
Barnett Banks	12	41	27	15	1.32	3.20	73.6	30	65	319	74.6	1.71	2.67	1.56	3.51
Crestar Financial	12	34	24	16	0.80	2.36	32.6	93	40	118	110.5	0.98	2.14	1.46	2.90
First Union	12	40	27	11	1.40	3.52	134.0	47	56	427	64.4	2.55	3.74	3.23	4.22
NationsBank	12	50	30	11	1.60	3.18	245.2	31	60	555	55.3	0.76	4.56	2.54	5.18
Signet Banking	12	43	29	12	1.20	2.77	27.8	94	58	141	80.9	-0.95	3.75	4.44	4.17
SouthTrust	12	24	16	10	0.78	3.27	44.1	-4	44	112	47.2	2.13	2.44	2.49	2.71
SunTrust Banks	12	42	21	13	1.12	2.70	125.2	2	54	320	21.3	2.90	3.26	3.47	3.61
Wachovia	12	67	32	14	2.00	2.98	85.4	16	48	329	18.0	2.65(b)	4.95	4.52	5.41
(d) BANKS - WEST & SOUTHWEST															
GROUP AVERAGE		46	32	13	1.14	2.75	93.6	53	66	278	100.1	1.43	3.59	3.21	4.62
Bancorp Hawaii	12	44	28	10	1.29	2.92	27.9	-1	65	187	39.4	4.04	4.52	5.20	4.91
BankAmerica	12	47	35	10	1.30	2.79	347.3	106	59	694	69.4	4.81	4.57	5.64	5.74
First Interstate Bancorp	12	43	34	14	1.20	2.77	74.0	70	78	338	120.2	-5.24	3.07	NA	4.44
U. S. Bancorp	12	24	15	12	0.76	3.13	98.8	9	57	282	65.2	2.01	2.04	2.57	2.45
Union Bank	12	28	30	9	1.40	5.05	32.4	43	79	19	8.5	2.64	2.98	2.73	3.46
Valley National	12	57	28	16	0.00	0.00	21.7	109	56	122	249.1	1.72	3.58	1.81	4.39
Wells Fargo	12	77	57	18	2.00	2.60	53.3	36	67	303	148.8	0.04	4.39	1.29	6.96
4 CHEMICALS															
INDUSTRY AVERAGE		38	17	24	1.09	2.75	80.9	6	58	266	61.5	1.47	2.06	2.20	2.52
Air Products & Chemicals	09	48	18	19	0.86	1.81	113.3	29	76	493	46.7	2.23	2.45*	2.74	2.69
American Cyanamid	12	58	30	13	1.65	2.86	90.2	-12	62	567	61.9	3.85	4.40	3.36	4.93
Arco Chemical	12	44	18	17	2.50	5.63	95.9	12	8	113	5.7	1.96	2.59	1.72	3.07
Betz Laboratories	12	59	10	22	1.36	2.31	28.4	-1	72	270	96.2	2.47	2.66	3.21	2.99
Cabot	09	46	23	15	1.04	2.25	18.3	39	57	129	55.3	1.69	3.18*	3.02	3.62
Dexter	12	27	13	17	0.88	3.32	24.3	23	74	122	39.7	-0.29	1.57	1.60	1.83

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992		1992		1993 ESTIMATES				
								MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1992 TURN OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS		
														IBES CON- SENSUS	VARIA- TION %	
Dow Chemical	12	53	34	22	2.60	4.88	272.9	0	53	741	42.3	3.46	2.45	2.68	3.22	7.5
Du Pont	12	48	25	16	1.76	3.66	674.4	4	41	815	28.8	2.08	2.93	2.77	3.63	6.9
Engelhard	12	35	12	23	0.60	1.71	65.7	58	53	213	38.9	1.31	1.52	1.51	1.75	2.9
Ethyl	12	30	12	14	0.60	2.00	118.3	7	42	323	38.3	1.75	2.10	2.09	2.33	7.3
Exxon	12	27	8	15	0.48	1.81	29.0	6	71	170	103.3	0.05	1.81	0.31	2.13	2.3
Freeport-McMoran	12	17	3	51	1.25(c)	7.19	142.8	-13	58	261	42.6	0.69	0.34	0.40	0.71	28.2
Fuller (H. B.)	11	39	18	15	0.48	1.25	13.8	-7	59	122	112.1	2.00	2.57	2.29	2.99	1.7
Georgia Gulf	12	22	-4	17	0.00	0.00	40.2	12	61	132	117.8	1.75	1.25	1.23	1.92	9.9
Goodrich (B. F.)	12	45	42	153	2.20	4.94	25.6	7	74	234	120.5	-3.50	0.29	0.40	1.99	21.1
Grace (W. R.)	12	38	17	15	1.40	3.71	89.7	-3	73	340	80.6	2.51	2.57	2.95	2.93	3.8
Great Lakes Chemical	12	69	15	21	0.32	0.46	71.3	21	79	423	64.1	2.23	3.26	4.03	3.89	4.4
Hanna (M. A.)	12	29	18	19	0.70	2.43	23.0	45	89	112	58.0	-0.75	1.48	1.67	1.88	6.9
Hercules	12	58	41	17	2.24	3.86	43.9	9	80	317	70.4	2.01	3.49	1.52	4.17	4.8
MC Fertilizer Group	06	38	29	9	1.08	2.84	22.0	-33	95	144	130.8	3.85	4.12*	3.52	2.77	19.9
Natl. Flavors & Fragrances	12	111	27	22	2.72	2.45	38.5	9	57	418	31.4	4.41	4.95	5.54	5.57	1.4
Nocate	12	46	11	21	0.76	1.64	36.4	-6	46	165	23.1	1.98	2.25	2.90	2.54	1.6
Nubrizol	12	27	12	15	0.84	3.10	68.9	-4	71	324	84.3	1.79	1.84	2.40	1.95	9.2
Petrolchemical	12	25	0	65	1.80	7.27	80.0	9	37	158	31.7	2.78	0.38	0.29	1.68	22.6
P Monsanto	12	56	31	18	2.24	4.00	122.6	-18	60	622	75.8	2.33	3.12	3.04	4.20	9.5
Morton International	06	63	26	21	0.96	1.52	48.5	9	68	358	54.0	2.85	2.95*	3.22	3.24	2.5
Nalco Chemical	12	35	8	19	0.84	2.43	70.1	-16	63	341	45.4	1.78	1.81	2.20	2.04	3.4
Olin	12	39	37	16	2.20	5.66	19.1	-3	56	148	58.5	-0.92	2.47	2.87	3.20	14.4
Oraxair	12	17	NA	16	0.06	0.38	130.4	NA	21	124	NA	NA	1.03	NA	1.20	3.3
Quantum Chemical	12	14	-9	NM	0.00	0.00	29.9	18	37	145	90.1	-4.26	-2.85	NA	-0.52	198.1
Roehm & Haas	12	56	22	17	1.32	2.34	67.5	36	67	266	35.7	2.45	3.38	2.95	3.91	4.3
Schulman (A.)	08	30	10	20	0.28	0.95	29.7	5	62	152	52.1	1.43	1.48*	1.88	1.62	2.5
Sterling Chemicals	09	4	2	52	0.08	1.94	55.1	-6	20	48	18.2	0.67	0.08*	0.13	0.22	54.5
Terra Industries	12	5	3	9	0.00	0.00	68.9	-8	26	65	26.1	0.27	0.51	0.60	0.63	15.9
Union Carbide	12	16	13	22	0.75	4.65	131.3	-18	53	341	132.7	-1.06	0.73	0.87	1.03	24.3
Vigoro	06	21	9	10	0.60	2.89	20.0	-3	28	56	30.1	1.86	2.10*	NA	2.29	3.5
Wellman	12	22	15	14	0.12	0.55	32.5	-2	85	167	74.9	1.39	1.62	2.01	1.88	4.8
Nitco	12	48	30	14	1.84	3.87	22.0	14	69	170	56.7	3.21	3.31	3.25	3.75	5.3

CONGLOMERATES

INDUSTRY AVERAGE		35	19	16	1.00	2.78	110.8	9	56	302	49.5	0.62	2.19	2.43	2.88	9.7
Alco Standard	09	38	19	17	0.96	2.54	46.2	13	50	235	43.3	1.95	2.22*	2.27	2.55	3.9
Allied-Signal	12	57	25	14	1.00	1.75	141.6	33	65	470	62.0	-2.00	3.99	4.13	4.74	3.6
Coltec Industries	12	18	-10	15	0.00	0.00	69.9	NA	58	101	NA	NA	1.21	NA	1.47	2.0
Dial	12	41	12	15	1.12	2.73	46.8	5	59	233	56.7	0.24	2.78	1.00	3.20	3.4
Flaggie International	12	19	21	12	0.50	2.70	18.5	-4	4	31	2.7	1.72	1.52	1.49	2.00	NM
Quana Industries	12	13	14	21	0.36	2.74	16.5	-5	41	60	51.5	-3.08	0.62	0.30	1.02	25.5
General Cinema	10	30	6	22	0.56	1.88	76.1	59	50	235	47.7	-3.88	1.33	1.51	1.59	6.9
General Electric	12	83	27	15	2.36	2.83	854.0	8	53	1280	29.3	5.10	5.56	7.14	6.13	2.8
Household International	12	56	38	15	2.32	4.12	41.3	14	68	274	60.6	3.10(b)	3.87	3.48	5.89	8.0
Intel	12	23	9	NM	0.00	0.00	27.3	1	61	79	90.9	-2.41	-0.57	NA	0.53	66.0
ITT	12	71	62	23	1.84	2.59	120.3	29	66	532	58.9	6.42	3.10	4.08	6.02	7.0
Ogden	12	21	11	15	1.25	5.95	43.1	4	49	246	63.2	1.33	1.40	1.37	1.58	3.8
Pall	07	27	6	26	0.36	1.32	86.7	-1	69	312	44.7	0.92	1.03*	1.12	1.21	3.3
Penn Central	12	20	30	15	0.80	4.10	47.2	-26	76	101	22.9	1.30	1.28	2.03	1.63	6.1
Premark International	12	39	21	11	1.00	2.58	31.7	-3	69	262	106.0	3.25	3.56	3.23	4.19	5.0
Rockwell International	09	27	12	12	0.92	3.47	221.7	-5	52	328	28.8	2.57	2.16*	2.35	2.44	1.6
Teledyne	12	18	8	15	0.80	4.54	55.4	-10	39	193	45.8	-0.46	1.21	0.62	1.93	15.5
Tenneco	12	35	23	21	1.60	4.60	125.2	12	60	468	64.1	-5.62	1.67	NA	2.88	17.0
Textron	12	43	36	11	1.12	2.64	86.8	8	63	332	35.8	3.42	3.90	3.86	4.36	1.8
TW	12	53	28	17	1.88	3.55	62.6	29	53	332	41.3	-2.30	3.21	3.06	4.16	7.5
Whitman	12	15	5	17	0.26	1.79	107.1	9	69	240	34.3	0.76	0.86	0.62	1.01	3.0

CONSUMER PRODUCTS

INDUSTRY AVERAGE		36	12	20	0.68	1.70	147.6	16	53	293	68.9	1.47	1.90	2.67	2.46	18.8
APPAREL GROUP AVERAGE		32	12	16	0.38	1.10	41.9	21	63	202	94.2	1.01	1.54	2.62	2.33	34.4
Brown Group	01	28	16	18	1.60	5.79	17.3	9	51	143	40.0	0.92	1.54	1.06	2.05	4.9
Crystal Brands	12	5	14	NM	0.00	0.00	9.1	-67	66	72	178.0	-3.53	-1.98	NA	0.83	125.3
Fruit of the Loom	12	48	11	20	0.00	0.00	75.1	73	83	277	77.9	1.55(b)	2.35	2.79	2.99	5.0
Hartmarx	11	6	3	NM	0.00	0.00	25.5	-29	46	119	88.6	-1.74	-0.83	NA	0.46	50.0
Cellwood	04	28	20	13	0.80	2.87	13.8	29	81	121	91.2	1.89	2.20	1.48	2.60	5.0
J. A. Gear	11	12	5	NM	0.00	0.00	22.9	29	28	66	215.4	-2.40	-2.20	NA	0.19	284.2
Leslie Fay	12	13	12	9	0.00	0.00	19.2	-29	73	108	80.7	1.55	1.43	1.73	1.72	7.6
Liz Claiborne	12	43	12	16	0.40	0.93	82.8	-1	70	413	96.5	2.61	2.65	3.48	3.01	2.3
Nike	05	86	19	17	0.60	0.70	75.6	19	51	375	82.9	4.30	4.98	7.21	5.72	4.4
Phillips-Van Heusen	01	28	7	20	0.15	0.54	25.3	127	61	114	57.9	1.15	1.37	1.56	1.61	1.2
Reebok International	12	33	11	13	0.30	0.91	90.6	-1	67	330	118.4	2.37	2.52	2.73	2.93	4.1
Russell	12	31	13	16	0.36	1.15	40.8	-12	49	195	36.1	1.38	1.92	1.93	2.31	3.9
Stride Rite	11	20	5	14	0.34	1.71	51.0	-32	70	262	122.8	1.28	1.39	2.02	1.62	5.6
VF	12	57	18	15	1.08	1.89	58.9	47	83	340	53.7	2.75	3.70	2.83	4.16	4.8
Warnaco Group	12	39	7	19	0.00	0.00	20.2	157	67	89	72.1	NA	2.03	NA	2.81	7.5

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

													1993 ESTIMATES			
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYST IBES CON- SENSUS	VAR- IATION %	
(b) APPLIANCES & HOME FURNISHINGS																
GROUP AVERAGE		25	12	20	0.46	1.80	49.6	33	49	175	84.4	0.89	0.95	1.31	1.54	25.0
Armstrong World Industries	12	29	17	19	1.20	4.10	37.1	0	71	283	73.5	1.11	1.56	1.19	2.19	14.0
Best Buy	02	38	14	29	0.00	0.00	11.2	130	42	66	229.4	1.00	1.31	1.72	1.63	13.0
Circuit City Stores	02	46	10	23	0.12	0.26	47.1	101	81	291	118.4	1.66	2.03	2.02	2.43	4.0
Kimball International	06	26	15	14	0.76	2.95	21.2	18	24	70	17.2	1.42	1.83*	1.84	1.80	3.0
La-Z-Boy Chair	04	23	14	16	0.60	2.62	18.2	-4	22	66	21.0	1.39	1.39	1.34	1.82	7.0
Leggett & Platt	12	30	11	19	0.48	1.59	38.0	71	56	161	51.9	1.11	1.60	1.32	1.89	6.0
Masco	12	27	13	21	0.64	2.39	151.9	15	68	394	55.0	0.30	1.28	0.51	1.83	6.0
Maytag	12	16	7	24	0.50	3.23	106.6	1	49	280	77.3	0.75	0.65	0.49	1.00	14.0
Pier 1 Imports	02	11	5	18	0.06	0.55	37.0	47	47	105	147.3	0.71	0.62	0.50	0.78	5.0
Sunbeam-Oster	12	17	6	22	0.04	0.24	64.2	NA	11	33	NA	0.63	0.76	NA	0.93	1.0
Toro	07	16	11	NM	0.48	2.98	12.0	9	53	64	56.5	0.81	-1.98*	NA	0.82	12.0
Whirlpool	12	45	22	16	1.10	2.47	69.9	15	81	361	68.2	2.45	2.85	2.16	3.31	4.0
Zenith Electronics	12	6	8	NM	0.00	0.00	30.3	-10	26	107	97.0	-1.79	-1.50	NA	-0.37	235.0
(c) BEVERAGES																
GROUP AVERAGE		43	16	39	0.94	1.80	429.5	0	46	511	33.3	1.83	2.35	2.52	2.67	12.0
Anheuser-Busch	12	60	17	17	1.28	2.14	276.7	-5	57	707	36.9	3.26	3.59	4.06	3.96	1.0
Brown-Forman	04	87	26	15	2.72	3.14	27.6	5	43	193	17.6	5.29	5.90	6.42	6.30	7.0
Coca-Cola	12	40	4	27	0.56	1.41	1312.2	-2	53	890	29.5	1.22	1.45	1.72	1.72	1.0
Coca-Cola Enterprises	12	12	11	136	0.05	0.41	129.3	-20	38	101	23.3	-0.79	0.09	0.10	0.28	46.0
Coors (Adolph)	12	21	30	16	0.50	2.42	37.6	-1	27	148	56.2	0.64	1.26	0.79	1.66	14.0
PepsiCo	12	41	8	23	0.52	1.28	793.5	21	56	1024	36.3	1.35	1.78	2.03	2.09	1.0
(d) PERSONAL CARE																
GROUP AVERAGE		51	13	19	0.99	1.96	120.2	9	54	335	43.7	2.09	2.72	3.82	3.18	3.0
Alberto-Culver	09	24	10	18	0.24(c)	1.00	28.5	-24	18	116	13.9	1.06	1.36*	1.58	1.59	1.0
Avon Products	12	59	3	18	1.60	2.69	71.8	29	76	363	72.4	2.92	3.37	3.19	3.86	1.0
Clorox	06	45	15	21	1.68	3.70	54.6	8	49	321	48.1	0.98	2.17*	1.65	3.03	1.0
Colgate-Palmolive	12	59	14	20	1.24	2.10	159.4	31	59	630	45.9	0.77	2.91	NM	3.34	1.0
Ecolab	12	38	10	18	0.70	1.87	31.3	27	52	176	36.1	1.91	2.06	1.81	2.47	13.0
Gillette	12	59	6	25	0.72	1.23	219.6	5	70	680	47.6	1.94	2.32	2.69	2.73	1.0
Helene Curtis Industries	02	44	18	19	0.24	0.55	9.8	9	42	69	56.2	2.04	2.31	1.89	2.70	3.0
NCH	04	73	35	14	1.00(c)	1.37	8.3	11	38	93	15.8	4.77	5.30	6.05	5.97	3.0
Procter & Gamble	06	54	11	21	1.10	2.03	679.4	16	45	819	28.1	2.46	2.62*	4.56	2.89	1.0
Stanhome	12	33	13	14	1.00	3.01	19.7	-10	71	143	48.7	2.22	2.44	2.79	2.78	4.0
Tambrands	12	68	5	22	1.36	2.01	39.6	-1	79	279	67.7	1.92	3.11	2.23	3.58	2.0
(e) TOBACCO																
GROUP AVERAGE		38	12	15	1.04	2.33	357.8	-2	46	453	58.4	2.21	2.75	3.00	3.14	3.0
American Brands	12	41	22	10	1.97	4.78	202.7	-9	56	594	31.3	3.91	4.26	4.83	4.61	3.0
Dibrell Brothers	06	40	10	17	0.60	1.52	13.3	21	43	92	143.3	1.60	2.31*	2.55	2.53	4.0
Philip Morris	12	80	15	15	2.60	3.27	904.6	-2	60	1433	47.6	4.24	5.46	6.78	6.48	1.0
RJR Nabisco Holdings	12	9	7	15	0.00	0.00	1134.5	-17	23	349	43.6	0.22	0.61	0.18	0.78	7.0
Standard Commercial	03	30	17	10	0.52	1.73	8.5	1	27	57	55.3	2.62	3.07	3.20	3.50	7.0
Universal	06	30	10	14	0.80	2.64	32.9	-11	58	179	52.5	1.72	2.15*	1.79	2.40	2.0
UST	12	33	2	24	0.80	2.40	208.3	1	54	465	34.8	1.18	1.40	1.68	1.65	1.0
7 CONTAINERS & PACKAGING																
INDUSTRY AVERAGE		28	14	17	0.51	1.60	60.8	5	47	185	58.2	1.11	1.34	1.95	1.89	21.0
(a) GLASS, METAL & PLASTIC																
GROUP AVERAGE		27	13	16	0.41	1.21	77.1	-3	50	179	48.9	1.22	1.64	2.09	1.89	6.0
Ball	12	34	20	15	1.24	3.62	26.2	-8	60	203	58.2	2.42	2.31	2.29	2.61	6.0
Crown Cork & Seal	12	37	13	21	0.00	0.00	86.0	23	46	245	40.4	1.48	1.78	1.89	2.09	4.0
Owens-Illinois	12	9	4	11	0.00	0.00	119.0	-25	45	89	48.3	-0.25	0.83	NA	0.98	7.0
(b) PAPER																
GROUP AVERAGE		28	15	18	0.55	1.77	53.8	10	46	187	62.8	1.06	1.21	1.90	1.89	28.0
Bemis	12	23	7	20	0.46	2.02	51.2	22	44	199	25.0	1.03	1.14	1.36	1.31	2.0
Federal Paper Board	12	27	22	13	1.00	3.74	41.9	-3	68	240	92.1	1.77(b)	2.07	2.16	2.60	7.0
Longview Fibre	10	17	7	28	0.40(c)	2.34	51.7	27	39	138	33.1	0.32	0.62*	0.39	1.18	11.0
Riverwood International	12	14	8	14	0.04	0.28	62.1	NA	15	35	NA	0.39	0.99	NA	1.03	1.0
Sonoco Products	12	47	14	18	1.00	2.14	43.5	36	30	155	36.6	2.20	2.55	2.39	2.92	5.0
Stone Container	12	19	18	NM	0.00	0.00	71.0	-24	55	222	136.6	-0.77	-1.86	NA	0.39	159.0
Temple-Inland	12	51	29	18	0.96	1.87	55.1	0	73	320	53.6	2.51	2.93	3.20	3.78	9.0
8 DISCOUNT & FASHION RETAILING																
INDUSTRY AVERAGE		30	11	22	0.39	1.10	105.5	26	50	236	91.0	1.21	1.57	1.75	1.96	9.0
AutoZone	08	39	4	45	0.00	0.00	69.7	16	26	97	42.4	0.66	0.87*	NA	1.08	2.0
Burlington Coat Factory	06	23	10	19	0.00	0.00	27.0	92	29	65	40.1	0.93	1.17*	1.16	1.36	2.0
Caldor	01	28	12	13	0.00	0.00	14.1	56	70	45	70.3	0.43	2.17	NA	2.60	2.0
Charming Shoppes	01	19	4	25	0.08	0.43	102.2	73	72	244	216.6	0.55	0.74	0.68	0.90	5.0
Consolidated Stores	01	18	4	24	0.00	0.00	46.0	59	77	154	135.0	0.44	0.75	0.47	0.98	8.0
Costco Wholesale	08	27	7	29	0.00	0.00	117.1	-28	58	288	219.8	0.74	0.93*	2.23	1.13	2.0
Dayton Hudson	01	79	31	16	1.52	1.93	71.3	27	80	441	96.0	3.86	4.86	5.98	5.81	5.0
Dillard Department Stores	01	50	15	24	0.08	0.16	111.7	23	73	419	88.3	1.84	2.11	2.57	2.52	4.0
Dollar General	01	30	7	24	0.20	0.67	25.6	56	52	104	156.4	0.82	1.23	1.54	1.44	2.0

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992	INSTITUTIONAL		1992	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS	
								MARKET VALUE CHANGE %	HOLDINGS % NUMBER	TURN- OVER %	IBES CON- SENSUS				VARI- ATION %	
dison Brothers Stores	01	47	18	14	1.12	2.39	21.7	40	50	136	31.6	2.83	3.32	3.80	3.82	3.1
amily Dollar Stores	08	25	5	25	0.26	1.06	56.0	44	54	152	79.4	0.73	1.00*	0.99	1.16	2.6
ederated Department Stores	01	19	15	19	0.00	0.00	126.0	NA	38	151	NA	NA	0.99	NA	1.21	6.6
ingerhut	12	32	17	13	0.32	1.02	23.9	10	NA	NA	52.3	2.14	2.42	2.81	2.88	2.4
ap	01	38	6	24	0.32	0.85	143.9	-29	38	395	125.9	1.62	1.57	2.30	1.85	4.3
rossman's	12	4	6	21	0.00	0.00	25.5	62	39	48	135.6	0.17	0.20	0.14	0.48	37.5
echinger	01	10	11	13	0.16	1.60	42.0	-16	36	90	121.4	0.66	0.76	0.56	0.92	14.1
ome Depot	01	61	7	56	0.12	0.20	330.6	43	59	627	78.6	0.80	1.08	1.51	1.43	2.8
ome Shopping Network	08	5	2	12	0.00	0.00	87.8	-15	29	76	94.3	-0.11	0.42*	0.44	0.47	21.3
amesway	01	4	8	38	0.00	0.00	13.9	7	26	28	105.8	-0.09	0.10	0.07	0.23	78.3
mart	01	28	15	13	0.92	3.32	405.8	17	76	710	59.5	2.02	2.11	2.04	2.36	3.0
ohl's	08	30	4	50	0.00	0.00	35.0	NA	24	55	NA	0.56	0.60*	NA	1.11	9.9
ands' End	01	25	7	13	0.20	0.80	17.9	-18	21	83	48.5	1.53	1.86	1.59	2.09	1.4
imited	01	27	5	21	0.28	1.04	362.3	-6	45	504	78.8	1.11	1.28	1.56	1.58	7.6
owe's	01	23	10	21	0.28	1.24	73.0	33	46	212	109.3	0.09	1.10	0.39	1.31	6.1
lac Frugal's Bargains	01	14	7	12	0.00	0.00	30.4	-38	73	127	186.7	1.12	1.12	0.87	1.38	4.3
ay Department Stores	01	72	22	16	1.66	2.29	123.7	38	67	535	45.9	4.02	4.48	4.85	5.17	3.1
elville	12	54	17	15	1.48	2.72	104.5	23	77	472	34.2	3.20	3.66	3.87	4.23	3.3
mercantile Stores	01	34	33	14	1.02	2.97	36.8	-10	39	227	27.6	3.10	2.44	2.53	3.03	11.2
erry-Go-Round Enterprises	01	16	4	23	0.05	0.32	53.3	56	56	137	123.4	0.43	0.72	0.94	0.95	9.5
eyer (Fred)	01	32	17	15	0.00	0.00	25.3	32	38	104	79.7	1.80	2.15	2.12	2.41	2.1
elman Marcus Group	07	19	0	NM	0.20	1.05	36.9	63	29	53	13.8	-0.45	-0.21*	NA	0.45	44.4
ordstrom	01	38	12	23	0.32	0.85	81.9	5	46	257	129.3	1.66	1.67	1.82	1.99	6.5
enney (J. C.)	01	79	31	14	2.64	3.33	117.0	45	66	596	68.1	1.97	5.63	3.62	6.33	5.2
ep Boys-Manny, Moe & Jack	01	23	8	26	0.14	0.60	60.3	40	64	276	102.4	0.69	0.90	0.84	1.08	5.6
etrie Stores	01	27	14	59	0.20	0.75	46.7	18	21	97	33.8	0.34	0.45	0.17	0.69	26.1
rice	08	39	17	15	0.00	0.00	46.2	-27	55	239	244.7	2.68	2.61*	3.23	2.67	5.6
IVC Network	01	29	14	23	0.00	0.00	26.9	127	46	91	179.5	0.68	1.26	1.24	1.56	4.5
ase's Stores	01	4	7	NM	0.00	0.00	18.6	-14	21	27	49.8	-1.25	-0.03	NA	0.37	29.7
oss Stores	01	20	7	16	0.00	0.00	24.9	29	54	87	218.7	1.13	1.29	1.58	1.52	3.9
ears, Roebuck	12	43	38	30	2.00	4.62	345.2	15	61	600	52.4	3.71	1.44	1.79	4.74	8.0
ervice Merchandise	12	14	1	15	0.00	0.00	98.7	100	54	147	80.0	0.76	0.93	1.16	1.13	4.4
hopKo Stores	02	16	10	10	0.44	2.79	32.0	22	38	62	38.6	1.55	1.60	NA	1.74	5.2
piegel	12	16	9	23	0.36(c)	2.22	52.0	23	8	44	17.0	0.33	0.71	0.49	1.06	8.5
trawbridge & Clothier	01	24	25	10	1.10(d)	4.63	9.9	16	35	55	21.4	1.38	2.50	1.65	3.25	NM
IX	01	28	4	21	0.46	1.65	70.0	66	86	225	79.9	1.00	1.33	0.97	1.60	5.0
oys 'R' Us	01	41	9	28	0.00	0.00	291.1	25	65	669	60.1	1.15	1.46	1.63	1.76	3.4
. S. Shoe	01	13	11	23	0.52	4.04	45.5	1	83	141	87.3	0.88	0.55	0.73	1.20	16.7
alue City Department Stores	07	20	5	21	0.00	0.00	30.5	3	21	56	40.8	1.16	0.98*	NA	1.20	2.5
enture Stores	01	29	7	11	0.56	1.93	16.7	21	61	145	87.2	2.48	2.73	NA	3.01	3.3
aban	01	18	13	14	0.00	0.00	32.9	18	77	126	171.6	1.01	1.34	1.34	1.62	6.8
al-Mart Stores	01	64	7	37	0.21	0.33	1149.4	9	31	921	23.1	1.40	1.73	2.20	2.11	1.4
oolworth	01	34	16	15	1.12	3.27	130.9	30	69	408	66.2	-0.41	2.30	2.58	2.78	7.2
ELECTRICAL & ELECTRONICS																
INDUSTRY AVERAGE		37	20	19	0.66	1.70	70.8	21	61	272	78.9	1.31	2.12	2.70	2.63	8.6
ELECTRICAL PRODUCTS																
GROUP AVERAGE		38	17	17	0.95	2.45	98.2	4	58	298	44.7	1.12	1.82	2.41	2.26	11.4
ooper Industries	12	52	31	18	1.24	2.40	113.3	-9	66	501	54.9	3.04	2.93	3.61	3.23	3.7
erson Electric	09	54	16	18	1.44	2.69	224.3	-2	66	718	29.4	2.83	2.96*	3.32	3.30	3.9
ubbell	12	54	18	18	1.60(d)	2.99	31.2	0	49	210	17.4	2.87	3.00	3.39	3.28	1.8
agneTek	06	17	8	14	0.00	0.00	23.8	18	47	91	58.7	1.47	1.22*	3.02	1.44	2.1
ational Service Industries	08	25	14	17	1.00	4.04	49.5	7	58	207	30.0	0.65	1.50*	1.09	1.74	3.4
aychem	06	44	18	NM	0.32	0.73	40.8	25	77	218	54.9	-0.63	-0.43*	NA	0.49	57.1
eliance Electric	12	19	9	25	0.00	0.00	37.9	NA	45	62	NA	0.45	0.74	0.98	1.46	2.7
omas & Betts	12	64	24	19	2.24	3.48	18.8	23	70	250	40.9	2.84	3.35	3.10	4.06	5.4
Vestinghouse Electric	12	13	12	11	0.72	5.70	344.2	-29	46	425	71.5	-3.46	1.10	0.79	1.36	22.1
ELECTRONICS																
GROUP AVERAGE		41	30	23	0.62	1.54	57.8	44	63	256	82.5	1.91	2.68	3.05	3.39	5.1
-Systems	12	38	25	10	1.00	2.65	32.5	0	56	246	55.4	3.35	3.69	4.28	4.00	3.5
eneral Instrument	12	23	0	NM	0.00	0.00	33.0	NA	31	31	NA	-2.52	-0.88	NA	0.97	8.2
IM Hughes Electronics	12	23	88	13	0.72	3.11	86.5	84	46	122	36.7	1.26	1.80	1.56	2.21	4.1
arris	06	35	28	15	1.04	3.01	39.2	29	76	225	56.5	0.50	2.24*	1.35	2.84	6.3
iton Industries	07	43	34	10	0.00	0.00	40.5	-1	70	209	52.5	1.45	4.22*	2.97	4.58	3.5
oral	03	46	32	10	1.00	2.19	38.5	41	65	244	67.5	4.00	4.48	4.83	4.94	4.7
otorola	12	103	38	24	0.76	0.74	133.9	60	75	713	80.2	3.44	4.32	4.68	5.37	5.8
aytheon	12	46	28	10	1.30	2.83	134.8	12	75	571	40.4	4.48	4.74	5.31	5.20	2.3
CI Systems	06	17	9	92	0.00	0.00	21.0	157	61	70	248.3	0.16	0.18*	0.08	0.86	5.8
arian Associates	09	41	23	20	0.36	0.88	18.3	13	73	131	105.2	2.95	2.04*	2.37	2.90	6.9
INSTRUMENTS																
GROUP AVERAGE		32	17	17	0.66	1.99	35.2	3	64	213	57.4	1.60	1.96	2.05	2.29	6.6
metek	12	16	5	17	0.68	4.22	44.2	19	49	162	42.3	0.87	0.96	0.91	1.09	11.9
eckman Instruments	12	24	13	15	0.32	1.36	28.5	27	56	139	51.1	1.32	1.52	1.38	1.73	2.9
loneywell	12	68	30	14	1.78	2.64	68.7	2	72	420	54.9	4.70	4.81	5.94	5.12	3.5
no Industries	12	6	20	17	0.00	0.00	16.9	-45	61	82	46.9	0.68	0.34	0.38	0.80	17.5
ohnson Controls	09	43	22	16	1.36	3.17	40.1	20	61	280	47.0	2.11(b)	2.73*	2.39	3.12	3.5
illipore	12	35	18	17	0.52	1.47	28.1	-4	78	241	71.5	2.17	2.13	1.90	2.46	3.7

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	1993 ESTIMATES		
									%	NUMBER					IBES CON- SENSUS	VARI- ATION %	
Perkin-Elmer	07	33	9	19	0.68	2.08	33.6	7	76	224	68.8	-0.08	1.72*	1.65	2.09	3.1	
Tektronix	05	20	16	17	0.60	2.96	29.9	4	65	181	75.0	0.67	1.20	1.26	1.55	9.8	
Thermo Electron	12	45	21	20	0.00	0.00	26.9	0	53	192	58.7	1.97	2.22	2.67	2.62	3.3	
(d) SEMICONDUCTORS																	
GROUP AVERAGE		35	14	18	0.34	0.61	99.6	32	56	335	141.1	0.36	1.93	3.73	2.47	12.5	
Advanced Micro Devices	12	18	11	7	0.00	0.00	87.8	7	52	217	317.7	1.53	2.40	6.00	2.02	19.1	
AMP	12	59	19	21	1.52	2.58	105.1	0	79	539	47.2	2.45	2.77	2.73	3.11	3.3	
Intel	12	72	24	17	0.10	0.14	208.2	49	75	801	233.3	3.92	4.20	6.28	5.01	28.1	
LSI Logic	12	9	4	NM	0.00	0.00	44.5	14	40	88	87.9	0.19	-0.24	NA	0.57	2.4	
Molex	06	27	11	25	0.02	0.06	62.9	-5	17	150	37.1	1.04	1.08*	1.22	1.24	5.1	
National Semiconductor	05	13	5	15	0.00	0.00	106.5	99	65	221	154.0	-1.24	0.82	NA	1.18	11.1	
Texas Instruments	12	49	21	20	0.72	1.47	82.4	60	66	327	110.6	-5.40	2.48	2.42	4.19	14.1	
10 FOOD																	
INDUSTRY AVERAGE		29	10	19	0.55	1.85	82.4	6	41	197	47.6	1.57	1.59	2.13	1.99	6.8	
(a) FOOD DISTRIBUTION																	
GROUP AVERAGE		22	13	17	0.50	2.38	44.4	7	56	159	50.1	1.40	1.40	2.12	1.86	4.1	
Fleming	12	32	29	10	1.20	3.81	36.7	-5	83	268	84.3	2.06	3.09	3.08	3.40	2.1	
Nash Finch	12	18	17	9	0.73(c)	4.06	10.9	6	37	70	33.0	1.75	1.95	1.82	2.15	7.1	
Richfood Holdings	04	18	6	12	0.14	0.77	10.9	37	51	66	99.3	1.32	1.47	2.85	1.68	NA	
Rykoff-Sexton	04	15	16	16	0.40	2.69	11.6	-19	58	53	25.7	1.09	0.93	0.84	1.60	NA	
Smart & Final	12	27	8	25	0.20	0.74	13.3	41	37	41	27.5	0.26	1.06	NA	1.28	0.1	
Super Food Services	08	9	11	NM	0.34	3.73	10.9	-38	59	51	45.0	1.13	-0.51*	NA	1.02	9.1	
Supervalu	02	33	14	14	0.78	2.34	75.3	23	64	312	43.6	2.78	2.31	2.88	2.66	4.1	
Sysco	06	26	6	28	0.24	0.91	185.2	13	61	412	42.4	0.84	0.93*	1.23	1.09	1.1	
(b) FOOD PROCESSING																	
GROUP AVERAGE		33	10	20	0.68	2.01	98.6	4	44	252	55.9	1.80	1.79	2.38	2.22	6.8	
Archer Daniels Midland	06	27	14	18	0.10(d)	0.37	326.3	-14	48	545	48.8	1.42	1.54*	1.89	1.79	4.1	
Borden	12	28	8	16	1.20	4.34	140.6	-19	50	469	55.0	2.00	1.71	1.96	2.08	2.1	
Campbell Soup	07	44	8	22	0.78	1.79	251.2	2	25	356	25.2	1.58	1.95*	0.53	2.25	1.1	
Chiquita Brands International	12	17	19	NM	0.68	4.12	51.7	-57	73	132	118.8	2.55	-2.67	NA	1.05	87.1	
ConAgra	05	32	9	18	0.62	1.94	245.5	-2	36	389	46.9	1.50	1.77	2.05	2.04	2.1	
CPC International	12	48	11	17	1.20	2.51	151.0	5	62	587	42.5	2.61	2.86	2.99	3.19	1.1	
Curtice-Burns Food	06	16	12	22	0.64	4.03	8.6	20	22	32	12.2	0.42(b)	0.71*	0.47	1.05	6.1	
Dean Foods	05	29	11	15	0.60	2.08	39.5	-8	34	127	33.5	1.53	1.92	2.09	2.16	5.1	
Dole Food	12	29	18	15	0.40	1.38	59.4	-19	56	184	47.2	2.24	1.94	2.17	2.33	6.1	
Doritos	12	13	16	9	0.00	0.00	5.8	31	29	24	119.2	NA	1.38	NA	1.98	10.1	
Flowers Industries	06	21	7	23	0.73	3.44	37.5	43	40	122	41.1	0.71	0.92*	0.84	1.11	3.1	
General Mills	05	70	8	20	1.68	2.40	163.8	-6	62	649	37.4	3.05	3.44	4.25	3.91	1.1	
Gerber Products	03	34	7	17	0.82	2.40	74.0	-12	54	295	65.4	1.71	2.03	2.64	2.28	3.1	
Heinz (H. J.)	04	43	9	17	1.20	2.82	252.9	8	42	531	40.3	2.40	2.52	2.93	2.80	4.1	
Hershey Foods	12	46	16	17	1.08	2.35	90.2	4	28	331	25.1	2.43	2.66	3.05	2.95	2.1	
Hormel (Geo. A.)	10	23	8	19	0.36	1.55	76.6	9	19	87	13.3	1.13	1.24*	1.49	1.39	2.1	
Hudson Foods	09	12	10	78	0.12	1.03	13.9	37	7	24	29.9	0.58	0.15*	0.23	0.69	18.1	
IBP	12	19	11	15	0.20	1.05	47.3	31	74	151	107.8	0.03	1.30	0.20	1.67	10.1	
International Multifoods	02	27	16	13	0.80	2.98	19.3	-8	53	108	45.7	2.00	2.14	2.23	2.42	2.1	
Interstate Bakeries	05	19	10	12	0.48	2.51	20.9	6	62	101	92.3	1.49	1.65	NA	1.84	1.1	
Kellogg	12	68	10	24	1.28	1.88	238.1	3	73	501	23.7	2.51	2.87	3.06	3.22	1.1	
Lancaster Colony	06	35	10	18	0.60	1.72	17.1	33	52	94	89.6	1.23	1.89*	1.70	2.21	10.1	
McCormick	11	29	5	25	0.40	1.40	80.2	9	45	187	49.8	0.98	1.15	1.66	1.34	3.1	
Pet	06	19	5	20	0.24	1.27	107.5	-20	53	254	56.0	0.76	0.96*	NA	1.09	1.1	
Pioneer Hi-Bred International	08	25	9	15	0.48	1.96	90.9	-1	57	178	60.3	1.15	1.68*	1.79	1.73	1.1	
Quaker Oats	06	71	10	22	1.92	2.70	72.1	-9	52	424	69.6	3.05	3.25*	3.37	4.02	2.1	
Ralston Purina	09	47	2	17	1.20	2.57	103.7	-22	48	378	43.7	3.34	2.82*	2.92	3.37	4.1	
Sara Lee	06	61	13	20	1.16	1.92	239.9	5	48	638	30.7	2.15	3.08*	3.38	2.81	0.7	
Savannah Foods & Industries	12	17	9	15	0.52	3.15	26.3	0	37	70	34.3	1.43	1.10	1.95	1.29	4.1	
Smithfield Foods	04	21	8	18	0.00	0.00	15.1	19	23	57	81.8	1.37	1.13	1.56	2.15	14.1	
Thorn Apple Valley	05	40	20	7	0.24	0.61	3.9	26	32	34	167.0	5.62	5.63	NM	6.31	1.0	
Tyson Foods	09	24	7	20	0.04	0.17	137.5	17	15	121	55.9	1.05	1.16*	1.42	1.33	1.1	
Universal Foods	09	35	12	22	0.88	2.50	26.4	-13	58	143	71.1	2.18	1.57*	2.42	2.28	3.1	
Wrigley (Wm.) Jr.	12	40	5	31	0.62	1.56	117.0	47	27	250	19.4	1.09	1.27	1.53	1.42	2.1	
(c) FOOD RETAILING																	
GROUP AVERAGE		24	8	20	0.35	1.37	70.3	7	31	118	32.6	1.25	1.32	1.70	1.64	6.9	
Albertson's	01	49	9	23	0.64	1.32	132.3	23	37	400	36.0	1.94	2.11	2.65	2.60	2.1	
American Stores	01	45	23	14	0.70	1.57	70.6	34	76	274	43.7	3.47	3.13	3.89	3.58	4.1	
Bruno's	06	12	5	18	0.22	1.80	78.0	-15	28	148	68.4	0.82	0.69*	0.94	0.84	8.1	
Dairy Mart Convenience Stores	01	7	8	10	0.00	0.00	5.4	-4	5	11	8.9	0.75	0.68	0.65	0.75	NA	
Food Lion	12	9	2	20	0.11	1.28	483.7	-52	6	92	23.9	0.43	0.44	0.59	0.52	5.1	
Giant Food	02	21	11	17	0.68	3.24	59.6	-13	36	187	31.5	1.47	1.21	1.48	1.45	17.1	
Great Atlantic & Pacific Tea	02	28	29	18	0.80	2.88	38.2	-2	32	151	58.7	1.85	1.54	1.71	2.03	13.1	
Hannaford Brothers	12	24	8	20	0.30	1.27	40.6	5	33	90	21.8	1.08	1.20	1.42	1.41	2.1	
Ingles Markets	09	6	8	17	0.22	3.67	17.9	-2	3	16	19.2	0.60	0.36	0.41	0.52	21.1	
Kroger	12	15	-31	17	0.00	0.00	90.3	-24	31	211	66.1	1.12	0.85	0.86	1.47	11.1	
Marsh Supermarkets	03	15	12	11	0.44	2.89	7.8	-7	23	26	20.0	1.25	1.41	1.60	1.57	7.1	
Penn Traffic	01	27	2	78	0.00	0.00	8.3	3	50	47	17.8	-1.03	0.35	NA	1.51	6.1	
Riser Foods	06	7	6	7	0.00												

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1992 TURN-OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	1993 ESTIMATES		
									%	NUMBER				BASED ON 5-YEAR TREND	IBES CONSENSUS	VARIATION %
LUCKY																
Waddick	09	19	11	14	0.39(c)	2.08	23.1	23	56	74	17.8	1.24	1.30*	1.53	1.48	1.4
Wayway	12	15	3	16	0.00	0.00	98.7	-14	17	86	39.5	0.69	0.97	3.60	1.32	4.5
Smith's Food & Drug Centers	12	38	17	21	0.44	1.17	30.0	9	33	93	54.7	1.65	1.81	2.16	2.14	3.3
Top & Shop	01	17	3	17	0.00	0.00	49.0	89	21	42	30.5	0.86	0.98	0.42	1.29	2.3
FOODS																
Veis Markets	12	27	12	15	0.00	0.00	43.3	13	40	107	47.3	1.56	1.77	NA	2.04	5.4
Vinn-Dixie Stores	12	27	15	15	0.68	2.54	43.8	5	48	67	6.7	1.81	1.78	1.88	1.90	3.7
	06	74	12	26	1.32	1.78	76.6	98	18	217	15.3	2.20	2.82*	3.06	3.12	2.2
FUEL																
INDUSTRY AVERAGE		32	20	35	1.09	3.03	148.5	0	53	360	53.0	1.40	1.42	2.23	2.12	22.4
COAL																
GROUP AVERAGE		21	20	21	0.32	1.62	23.3	-23	46	114	38.4	0.51	0.93	1.52	1.72	28.9
Pacoco Industries	12	47	40	18	0.64	1.37	8.9	-2	64	121	36.2	2.31	2.58	2.27	4.08	3.7
Pacoco	12	12	15	36	0.00	0.00	39.2	-25	12	62	21.1	2.12	0.34	0.64	1.04	18.3
Pittston	12	13	9	10	0.30	2.24	36.9	-22	71	185	66.4	-0.77	1.36	1.64	1.41	14.2
Westmoreland Coal	12	11	17	NM	0.32	2.88	8.3	-45	36	89	29.8	-1.62	-0.56	NA	0.34	79.4
OIL & GAS																
GROUP AVERAGE		35	21	38	1.31	3.38	173.6	-4	52	388	50.8	1.56	1.57	2.32	2.32	23.9
Meradad Hess	12	45	39	227	0.60	1.32	92.6	9	61	398	73.2	1.04	0.20	0.43	1.67	36.5
Pacoco	12	49	27	19	2.20	4.51	496.2	-1	53	884	29.7	2.36	2.58	2.59	3.24	11.7
Shland Oil	09	25	18	NM	1.00	4.00	59.9	-16	48	244	47.4	2.56	-1.18*	NA	2.26	12.8
Atlantic Richfield	12	109	44	17	5.50	5.03	158.1	3	60	844	38.2	4.39	6.54	6.05	7.23	10.0
Arllington Resources	12	39	18	32	0.50	1.28	131.0	11	64	490	57.1	1.48	1.24	2.13	1.54	14.9
Hevron	12	69	42	17	3.30	4.80	340.9	-2	43	781	30.9	3.69	4.14	4.22	4.68	5.3
Coastal	12	25	20	17	0.40	1.61	103.8	1	65	352	67.3	0.92	1.50	1.33	2.18	9.6
rown Central Petroleum	12	15	31	27	0.00	0.00	9.8	-33	9	28	6.1	-0.61	0.57	0.40	1.83	31.7
Diamond Shamrock	12	18	16	15	0.52	2.91	28.6	-7	66	120	53.7	1.39	1.20	2.27	1.89	10.1
xxon	12	60	28	16	2.88	4.84	1241.5	-2	40	1056	19.3	4.45	3.61	3.98	4.12	6.6
err-McGee	12	43	32	24	1.52	3.53	48.3	11	67	325	63.0	2.10	1.83	2.11	2.32	8.6
ouisiana Land & Exploration	12	34	15	48	1.00	2.95	28.3	8	71	205	53.2	0.74	0.71	0.90	1.18	17.0
Papco	12	54	16	12	1.00	1.84	29.9	-11	80	223	47.8	4.20	4.47	6.49	5.51	4.0
axus Energy	12	7	0	NM	0.00	0.00	132.0	17	51	227	113.4	-0.52	-0.46	NA	-0.14	214.3
ritchell Energy & Development	01	18	14	21	0.40	2.27	46.8	12	10	59	15.6	0.95	0.83	2.46	1.17	7.7
Tobil	12	61	42	19	3.20	5.27	398.6	-10	57	967	35.5	4.65	3.13	4.05	3.99	9.8
Murphy Oil	12	37	27	32	1.20	3.25	44.8	8	61	181	38.7	-0.24	1.15	1.60	1.75	15.4
ccidental Petroleum	12	18	14	74	1.00	5.59	302.6	1	37	412	48.2	1.25	0.24	0.41	0.80	43.8
ryx Energy	12	21	9	141	0.40	1.89	96.9	0	44	310	67.8	0.08	0.15	0.06	0.57	43.9
ennzoil	12	51	27	67	3.00	5.91	40.6	-10	58	252	52.1	-1.05	0.76	1.53	1.71	35.7
Phillips Petroleum	12	24	10	25	1.12	4.67	260.2	0	46	470	46.3	0.38	0.96	1.69	1.64	17.1
Quaker State	12	12	11	24	0.80	6.81	27.2	-10	41	94	52.8	0.58	0.50	0.56	0.97	10.3
un	12	27	24	62	1.80	6.76	106.2	-13	51	266	29.1	-1.25	0.43	0.52	1.52	28.9
Exaco	12	60	34	16	3.20	5.32	258.7	-2	61	899	57.1	4.61	3.71	3.49	4.40	7.3
osco	12	19	14	9	0.60	3.24	29.9	-28	52	135	88.9	2.35(b)	1.97	3.45	2.37	15.6
lramar	12	18	NA	9	0.28	1.57	38.0	NA	60	70	NA	1.55	1.92	NA	2.63	6.8
Union Texas Petroleum Holdings	12	18	5	20	0.20	1.14	85.9	-13	16	73	28.5	2.59	0.88	3.93	1.31	13.0
nocal	12	25	11	30	0.70	2.79	240.4	10	70	560	68.3	0.31	0.85	0.90	1.35	19.3
EX-Marathon Group	12	17	13	47	0.68	4.12	285.8	-25	60	503	67.5	-0.31	0.35	1.32	0.81	39.5
alero Energy	12	21	19	9	0.44	2.11	43.0	-26	68	204	75.4	2.28	2.32	3.76	2.99	9.0
PETROLEUM SERVICES																
GROUP AVERAGE		26	13	24	0.57	2.34	112.6	31	61	382	70.5	1.18	1.08	2.17	1.51	12.5
aker Hughes	09	20	12	NM	0.46	2.33	138.7	3	74	443	103.1	1.26	0.00*	2.77	1.04	15.4
aroid	12	6	3	21	0.20	3.48	74.4	12	53	128	53.3	0.24	0.27	0.26	0.38	13.2
BI Industries	12	30	16	16	0.48	1.60	36.9	-6	69	160	53.8	1.54	1.82	3.49	2.01	7.5
resser Industries	10	18	13	20	0.60	3.31	136.8	-8	66	427	72.7	1.04	0.91	2.20	1.25	14.4
alliburton	12	30	20	39	1.00	3.29	107.2	7	67	456	110.3	0.25	0.77	0.71	1.32	18.9
chlumberger	12	61	18	21	1.20	1.97	241.8	-1	54	929	53.7	3.42	2.91	3.62	3.36	6.3
idewater	03	20	10	24	0.08	0.37	52.7	209	42	133	46.8	0.50	0.85	NA	1.18	11.9
HEALTH CARE																
INDUSTRY AVERAGE		36	10	20	0.60	1.52	145.8	4	55	350	84.7	1.23	1.95	2.83	2.30	5.2
DRUG DISTRIBUTION																
GROUP AVERAGE		21	10	21	0.36	1.44	43.1	2	48	155	84.1	0.22	1.23	1.59	1.48	8.7
ergen Brunswick	08	19	11	13	0.40	2.13	35.8	-3	60	137	46.3	1.50	1.41*	2.06	1.60	3.1
ndley Western Industries	12	12	14	7	0.06	0.51	10.7	8	51	56	156.0	1.61	1.66	2.68	1.88	12.2
ardinal Distribution	03	27	12	18	0.08	0.29	19.0	-9	70	125	145.4	1.26(b)	1.53	2.05	1.83	3.3
rug Emporium	02	6	4	51	0.08	1.42	13.1	-13	23	34	128.3	-0.36	0.11	0.13	0.38	52.6
ay's	01	8	4	12	0.20	2.58	19.7	5	20	35	26.5	0.44	0.64	0.70	0.73	2.7
oxMeyer	03	12	17	11	0.28	2.38	29.9	-3	NA	NA	67.6	1.01	1.05	NA	1.20	5.0
ook-SuperRx	08	13	1	19	0.00	0.00	10.8	NA	40	33	NA	-0.18	0.65*	NA	1.27	6.3
ongs Drug Stores	01	34	21	13	1.12	3.26	20.6	-12	40	172	30.2	2.71	2.63	2.87	2.86	5.2
McKesson	03	43	11	17	1.60	3.75	39.0	17	61	250	55.8	0.84	2.53	1.58	2.85	5.3
edco Containment Services	06	35	5	51	0.04	0.12	145.2	13	87	379	202.7	0.43	0.68*	0.92	0.82	6.1
erry Drug Stores	10	8	6	11	0.00	0.00	12.0	-3	31	41	67.1	0.59	0.76	0.70	0.89	5.6

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He Started A Revolution By Selling



Ted Wain, founder and president of Gateway 2000, runs his high-tech business the old-fashioned way, with the midwestern friendliness you find in places like this one in Sisseton, South Dakota – population 14 – located just a few miles from Gateway's factory.

Computers The Old-Fashioned Way.

So you want to start a revolution in a \$50 billion industry? Start a direct-market personal computer company in the Midwest. Manufacture high-quality, high-performance computers with the latest technology. Keep your overhead low so you can sell your products at the best prices on the market. Give your customers friendly, personal service. And never get greedy. Always offer the best value.

This was Ted Waitt's business strategy when, seven years ago, he started a company called Gateway 2000. You'd hardly call it a radical plan, and yet the effects have been quite revolutionary. Gateway has grown, almost unnoticed, to exceed \$1 billion in annual revenue. The latest International Data Corp. research shows Gateway 2000 with a 3.6% share of the U.S. PC market, compared to Compaq with 3.5% and Dell with 2.1%. And Gateway has managed to do this while making better profits than any other company in the DOS-based PC market.

What you see other computer makers doing today – struggling in vain to get their overhead down, cutting corners on quality, features and performance to get their prices down – is a reaction to Gateway's phenomenal success. They know they have to change the way they do business to compete with the value Gateway 2000 offers.

Why is Gateway causing such a stir? Maybe it's because old-fashioned value is never out-of-style. You still like to get a good buy on quality products. You still like great service. You still want to buy from a company you can trust, a company that will be there for you. That's what you get from Gateway 2000.

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The HandBook™ is a good example of the value we offer. This tiny but powerful PC is one of Popular Science magazine's "Best of What's New" products for 1992. The HandBook measures less than 6 x 10 inches and weighs only 2.75 pounds, yet it delivers 286-class performance with a comfortable touch-typing keyboard, great battery life, 1MB RAM, a 40MB hard drive, a backlit CGA screen, software and carrying case. All for \$1,295.



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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992	INSTITUTIONAL		1992	1991 ACTUAL	IBES	BASD	FROM ANALYSTS	
								MARKET VALUE CHANGE %	HOLDINGS % NUMBER	TURN- OVER %	1992 ANALYST EST		ON 5-YEAR TREND	IBES CON- SENSUS	VARIA- TION %	
Revco D. S.	05	9	9	37	0.00	0.00	36.2	NA	21	38	NA	-9.73	0.23	NA	0.64	10.9
Rite Aid	02	24	11	15	0.55	2.30	87.9	11	66	298	48.0	1.43	1.61	1.63	1.81	2.2
Walgreen	08	44	10	25	0.60	1.36	123.1	16	48	414	35.7	1.58	1.78*	2.13	2.01	1.0
(b) DRUGS & RESEARCH																
GROUP AVERAGE		52	10	19	1.28	2.60	269.9	-16	54	611	67.2	2.17	3.00	3.51	3.47	3.1
Allergan	12	26	8	17	0.40	1.57	67.3	4	83	232	40.6	-0.92	1.52	NA	1.76	3.4
American Home Products	12	71	10	15	2.84	3.99	312.0	-17	63	950	39.7	4.36	4.76	5.31	5.33	3.6
Amgen	12	77	6	37	0.00	0.00	135.2	4	66	508	226.4	0.67	2.08	4.94	2.69	6.7
Bristol-Myers Squibb	12	67	12	16	2.76	4.11	517.9	-24	54	1191	59.6	3.95	4.28	4.54	4.87	1.8
Carter-Wallace	03	36	9	30	0.33	0.93	45.8	-13	33	125	53.6	1.00	1.18	1.23	1.80	NM
Lilly (Eli)	12	63	17	13	2.20	3.52	292.6	-25	64	740	42.9	4.50	4.94	7.11	5.52	2.7
Marion Merrell Dow	12	26	7	10	1.00	3.88	274.7	-30	18	270	29.1	2.08	2.48	3.63	2.72	3.3
Merck	12	45	5	21	1.00	2.22	1150.6	-19	53	1151	47.1	1.83	2.15	2.76	2.51	1.2
Pfizer	12	78	17	24	1.48	1.89	329.7	-7	67	974	60.0	2.13	3.20	2.87	3.86	2.9
Rhone-Poulenc Rorer	12	49	9	17	0.80	1.63	138.2	-24	22	189	21.9	2.37	2.90	0.97	3.65	6.3
Schering-Plough	12	67	8	18	1.56	2.35	199.0	0	61	774	67.0	3.01	3.60	4.41	4.21	1.4
Sigma-Aldrich	12	57	10	29	0.25	0.44	49.8	7	58	254	48.4	1.60	1.92	2.24	2.21	1.4
Syntex	07	22	6	11	1.04	4.70	225.7	-54	41	604	108.3	1.89	2.10*	2.42	2.34	3.8
Upjohn	12	31	11	10	1.48	4.83	175.0	-25	60	522	91.2	2.96	3.07	3.60	3.30	3.0
Warner-Lambert	12	68	11	14	2.04	3.01	134.7	-12	65	679	71.7	1.05	4.79	3.06	5.26	2.3
(c) HEALTH CARE SERVICES																
GROUP AVERAGE		24	8	18	0.14	0.67	77.7	32	58	177	108.6	0.79	1.30	3.11	1.57	5.4
American Medical Holdings	08	11	9	8	0.00	0.00	76.6	12	32	78	27.2	-0.38	1.43*	NA	0.88	6.8
Beverly Enterprises	12	12	7	22	0.00	0.00	73.8	36	67	200	118.9	0.37	0.55	NA	0.73	8.2
FHP International	06	22	10	22	0.00	0.00	32.5	56	71	114	147.2	1.37	1.00*	1.93	1.25	6.4
Foundation Health	06	44	9	22	0.00	0.00	23.3	118	95	144	187.1	1.33	2.02*	NA	2.30	1.7
HCA—Hospital Corp. of America	12	20	8	12	0.00	0.00	157.3	NA	20	103	NA	-0.20	1.69	NA	2.08	1.9
Healthtrust	08	18	7	19	0.00	0.00	81.4	56	28	123	102.8	-1.15	0.90*	NA	1.67	2.4
Hillhaven	05	3	1	15	0.00	0.00	104.5	23	41	81	48.3	-0.77	0.22	NA	0.30	NM
Humana	08	21	13	16	0.90	4.36	158.5	-23	74	389	78.7	2.26	1.27*	1.89	1.92	12.0
Lifetime	12	17	14	12	0.00	0.00	9.3	-47	56	60	121.3	1.66	1.35	2.85	1.72	6.4
Manor Care	05	23	6	22	0.09	0.38	57.3	34	50	170	48.5	1.16	1.07	1.58	1.23	16.3
National Health Laboratories	12	24	3	19	0.32	1.32	89.1	-26	75	224	65.0	1.05	1.29	1.67	1.54	2.6
National Medical Enterprises	05	13	10	9	0.48	3.76	166.0	-26	66	395	92.9	0.75(b)	1.46	1.24	1.72	5.8
PacificCare Health Systems	09	46	8	26	0.00	0.00	23.9	140	18	74	158.4	1.10	1.78*	3.19	2.07	3.4
U. S. Healthcare	12	47	4	26	0.37	0.80	107.4	71	76	341	278.1	1.39	1.76	NM	2.16	3.2
United HealthCare	12	55	9	34	0.02	0.03	68.2	58	93	276	99.4	1.20	1.62	3.14	2.03	2.5
Universal Health Services	12	14	14	10	0.00	0.00	13.8	2	58	60	54.5	1.45	1.40	2.84	1.56	1.9
(d) MEDICAL PRODUCTS																
GROUP AVERAGE		51	14	22	0.64	1.39	212.8	-5	65	489	75.9	1.93	2.42	2.96	2.84	2.8
Abbott Laboratories	12	31	4	21	0.60(c)	1.95	839.2	-12	51	900	34.6	1.28	1.48	1.73	1.70	1.2
Bard (C. R.)	12	33	8	23	0.52	1.59	52.8	7	69	287	70.4	1.08	1.40	1.14	1.70	3.5
Bausch & Lomb	12	58	15	20	0.80	1.38	59.4	0	70	369	57.3	1.42	2.86	2.55	3.30	1.2
Baxter International	12	35	16	15	0.86	2.48	278.8	-14	63	706	50.0	2.03	2.26	2.66	2.63	6.8
Becton, Dickinson	09	82	38	16	1.20	1.47	37.9	20	81	358	57.6	4.86	5.15*	5.75	5.76	1.7
Imcera Group	06	38	16	23	0.40	1.04	76.1	-11	75	318	90.7	1.37	1.65*	5.22	1.97	2.0
Johnson & Johnson	12	50	9	20	0.92	1.83	655.5	-13	58	1075	44.5	2.20	2.53	2.86	2.91	1.4
Medtronic	04	97	14	29	0.56	0.58	59.6	3	68	443	68.3	2.71	3.37	3.69	4.06	2.2
Owens & Minor	12	23	9	20	0.26	1.16	13.0	12	41	62	45.8	0.75	1.12	0.94	1.29	2.3
U. S. Surgical	12	66	10	28	0.30	0.45	55.5	-37	69	375	240.2	1.58	2.33	3.03	3.10	5.2
13 HOUSING & REAL ESTATE																
INDUSTRY AVERAGE		29	17	21	0.51	1.54	36.4	25	53	155	62.5	0.17	1.75	1.72	2.41	9.8
(a) BUILDING MATERIALS																
GROUP AVERAGE		32	16	23	0.61	1.67	42.8	22	52	161	45.5	-0.16	1.83	1.81	2.56	9.7
Lafarge	12	13	14	NM	0.30	2.26	59.1	13	17	71	16.1	-0.90	-0.19	NA	0.82	37.8
Owens-Corning Fiberglas	12	34	-24	18	0.00	0.00	42.0	51	78	211	133.5	-12.58	1.89	1.29	3.32	11.7
Ply Gem Industries	12	11	11	16	0.12	1.14	10.5	12	46	47	39.5	0.39	0.67	0.39	0.90	NM
PPG Industries	12	64	26	19	2.00	3.13	106.1	27	49	496	41.2	1.90	3.34	2.76	4.29	5.8
RPM	05	17	5	21	0.48	2.77	47.2	14	39	122	56.2	0.73	0.84	0.91	0.93	3.5
Sherwin-Williams	12	31	11	18	0.44	1.41	88.2	17	59	319	41.3	1.45	1.69	1.82	1.90	2.6
Tecumseh Products	12	54	69	9	1.60	2.96	10.9	4	39	81	13.4	3.89	5.75	3.09	6.88	12.8
Texas Industries	05	21	26	76	0.20	0.94	10.9	6	43	56	21.7	0.19	0.28	0.29	1.85	NM
Valspar	10	34	8	22	0.36	1.06	21.8	17	62	88	19.4	1.27	1.57*	1.76	1.80	1.1
Vulcan Materials	12	46	19	20	1.20	2.59	37.4	27	59	142	17.3	1.38	2.37	1.85	3.06	8.2
York International	12	31	12	16	0.04	0.13	36.9	51	76	138	101.4	0.56	1.90	3.90	2.40	3.3
(b) CONSTRUCTION & REAL ESTATE																
GROUP AVERAGE		23	20	17	0.27	1.25	22.4	31	58	141	99.9	0.88	1.56	1.56	2.07	10.2
Centex	03	32	18	17	0.20	0.63	30.4	42	84	205	123.1	1.11	1.88	1.95	2.26	9.7
Kaufman & Broad Home	11	16	9	20	0.30	1.94	34.6	4	51	185	158.2	0.80	0.76	0.71	1.28	15.6
Perini	12	18	34	22	0.00	0.00	4.1	64	31	30	29.4	0.27	0.80	0.35	1.20	5.8
PHM	12	28	17	11	0.24	0.86	27.3	31	49	185	111.2	1.71	2.65	3.96	3.25	12.0
Ryland Group	12	21	19	12	0.60	2.81	15.4	15	74	99	77.4	0.53	1.72	0.82	2.36	7.6

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INST'TIONAL HOLDINGS % NUMBER	1992 TURN- OVER %	1991 ACTUAL	BES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS '93 CON- SENSUS	VARIA- TION %	
14 LEISURE TIME INDUSTRIES																
INDUSTRY AVERAGE		29	12	26	0.33	1.08	90.2	30	59	241	93.1	1.19	1.48	1.57	1.87	17.4
(a) EATING PLACES																
GROUP AVERAGE		20	6	19	0.19	0.90	93.7	20	52	212	69.9	0.78	0.99	1.19	1.22	44.7
Bob Evans Farms	04	20	7	19	0.25	1.24	41.9	4	36	128	61.4	0.94	1.06	1.10	1.18	3.4
Foodmaker	09	12	6	18	0.00	0.00	38.5	NA	31	83	NA	0.01	0.67*	0.05	1.02	2.0
McDonald's	12	49	15	19	0.40	0.82	363.9	31	64	811	50.2	2.35	2.63	3.01	2.99	1.3
Morrison Restaurants	05	28	8	18	0.48	1.72	24.6	60	45	113	106.2	1.31	1.51	1.48	1.73	6.9
Shoney's	10	24	-5	21	0.00	0.00	41.4	4	64	189	92.4	0.94	1.16	0.84	1.41	3.5
Sizzler International	04	10	10	18	0.16	1.60	29.2	-22	64	79	38.9	0.75	0.55	0.54	0.73	71.2
TW Holdings	12	4	0	NM	0.00	0.00	111.8	27	60	57	41.6	-0.61	-0.32	NA	-0.06	266.7
Wendy's International	12	13	5	21	0.24	1.81	98.5	36	49	232	98.2	0.52	0.63	1.33	0.74	2.7
(b) ENTERTAINMENT																
GROUP AVERAGE		34	15	23	0.34	0.82	275.9	43	45	483	83.9	0.93	1.51	1.46	1.83	5.4
Blockbuster Entertainment	12	18	4	23	0.02	0.11	185.2	67	44	284	111.3	0.56	0.75	1.45	0.95	5.3
Disney (Walt)	09	42	9	28	0.21	0.50	524.1	48	40	720	78.8	1.20	1.52*	1.83	1.83	4.8
Paramount Communications	10	44	34	19	0.80	1.84	118.4	13	52	444	61.6	1.03	2.27	1.10	2.71	5.9
(c) HOTEL & MOTEL																
GROUP AVERAGE		41	13	23	0.25	0.66	48.4	47	62	195	109.7	1.58	1.87	1.77	2.32	8.1
Caesars World	07	40	16	13	0.00	0.00	24.3	22	76	158	221.3	2.09	3.01*	2.79	3.13	7.3
Circus Circus Enterprises	01	55	7	25	0.00	0.00	57.2	48	84	254	82.9	1.84	2.21	2.63	2.66	3.4
Hilton Hotels	12	47	21	21	1.20	2.57	47.6	16	35	236	57.6	1.76	2.28	1.86	2.69	5.6
Marriott	12	20	6	25	0.28	1.37	100.3	29	38	207	67.0	0.80	0.80	0.50	1.14	14.0
Mirage Resorts	12	33	18	25	0.00	0.00	27.4	49	60	130	147.7	2.01	1.31	1.06	2.16	13.0
Promus	12	48	13	30	0.00	0.00	33.8	118	80	185	81.9	1.00	1.61	NA	2.14	5.1
(d) OTHER LEISURE																
GROUP AVERAGE		28	13	32	0.44	1.41	67.9	25	64	226	99.5	1.31	1.57	1.72	2.05	8.9
American Greetings	02	49	25	16	0.86	1.77	36.3	19	83	281	123.3	2.80	3.04	4.37	3.53	2.0
Brunswick	12	15	10	30	0.44	2.86	95.1	19	65	248	63.0	-0.27	0.52	0.38	1.11	27.0
Carnival Cruise Lines	11	32	10	16	0.56	1.74	141.1	23	23	203	32.3	1.85	1.99	2.11	2.29	4.8
Eastman Kodak	12	42	21	12	2.00	4.78	325.1	-13	54	750	61.9	0.05	3.46	0.39	4.03	4.7
Fisher-Price	12	22	8	18	0.05	0.23	32.0	37	54	166	100.6	NA	1.22	NA	1.60	8.8
Fleetwood Enterprises	04	45	21	19	0.92	2.03	22.8	31	64	192	112.1	1.76	2.43	1.83	2.89	9.9
Harley-Davidson	12	36	8	25	0.00	0.00	35.8	61	70	164	165.2	1.04	1.46	1.55	1.94	4.1
Harman International Industries	06	13	10	33	0.00	0.00	10.8	80	55	43	61.1	-2.26	0.39*	0.52	1.08	7.4
Hasbro	12	36	12	18	0.20	0.56	86.9	33	70	314	53.1	0.94	1.93	1.91	2.24	4.9
Huffy	12	15	10	14	0.30	1.97	12.7	-33	57	85	119.5	1.52	1.09	1.74	1.37	5.8
Mattel	12	27	5	18	0.20	0.75	95.8	22	72	320	95.4	1.23	1.49	2.22	1.75	4.0
Musicland Stores	12	14	6	15	0.00	0.00	30.1	NA	45	91	NA	0.39	0.90	0.60	1.19	11.8
Outboard Marine	09	22	23	216	0.40	1.85	19.5	23	79	148	101.3	-4.42	0.10*	0.06	1.42	21.8
Polaroid	12	32	17	14	0.60	1.86	46.8	16	77	234	99.4	12.54	2.35	5.44	2.67	6.4
Tyco Toys	12	15	11	12	0.10	0.68	28.5	25	89	157	204.6	1.14	1.25	0.93	1.59	10.7
15 MANUFACTURING																
INDUSTRY AVERAGE		31	15	29	0.62	1.84	48.5	20	60	211	66.4	0.58	1.51	2.03	2.14	11.7
(a) GENERAL MANUFACTURING																
GROUP AVERAGE		37	14	20	0.75	1.92	74.8	6	60	285	50.1	1.50	2.10	2.26	2.41	5.9
Alliant Techsystems	03	24	18	6	0.00	0.00	9.6	11	71	89	90.6	4.57	3.88	NA	3.32	12.7
Avery Dennison	12	28	14	20	0.88	3.17	60.7	8	60	308	41.0	1.02	1.41	0.71	1.77	7.3
Corning	12	40	11	21	0.60	1.52	194.6	4	60	514	57.0	1.66	1.85	2.03	2.20	4.1
Crane	12	23	9	14	0.75	3.26	30.5	-3	59	199	30.8	1.41(b)	1.65	1.71	2.15	14.0
Duracell International	06	35	9	25	0.32	0.91	112.8	3	37	203	46.9	0.50	1.43*	NA	1.49	4.0
First Brands	06	27	12	14	0.04	0.15	21.7	4	87	125	97.8	2.21	1.91*	3.01	2.41	3.3
Harsco	12	35	19	11	1.32	3.77	25.7	15	62	158	45.7	2.91	3.26	3.38	3.33	3.0
Hillenbrand Industries	11	42	7	27	0.35	0.84	71.6	16	36	199	17.1	1.22	1.53	1.63	1.82	3.8
Illinois Tool Works	12	64	25	19	0.96	1.49	55.9	1	70	331	25.1	3.25	3.46	4.07	3.93	2.5
Jostens	06	31	8	21	0.88	2.83	41.1	-9	65	258	55.9	1.58	1.50*	1.77	1.66	2.4
Mark IV Industries	02	15	9	13	0.09(d)	0.60	38.0	32	46	100	56.4	0.93(b)	1.13	1.26	1.36	4.4
Minnesota Mining & Mfg.	12	102	31	18	3.20	3.14	219.1	7	66	885	31.5	5.26	5.71	6.32	6.45	1.4
Norfolk	12	43	11	22	0.60	1.39	78.0	19	60	335	63.9	1.81	1.97	2.72	2.28	1.8
Parker Hannifin	06	28	20	22	0.96	3.38	48.4	-7	73	257	46.6	1.23	1.32*	1.26	1.74	6.9
Rubicon	12	34	6	29	0.39	1.15	160.2	-11	44	419	33.1	1.02	1.15	1.34	1.33	1.5
Trinova	12	22	13	44	0.68	3.11	28.2	11	69	185	61.8	-6.52	0.50	0.43	1.30	20.8
(b) MACHINERY & HANDTOOLS																
GROUP AVERAGE		24	15	20	0.59	2.22	33.6	14	59	168	59.8	-0.31	1.01	1.42	1.65	16.4
Black & Decker	12	20	16	24	0.40	2.03	83.4	57	68	271	129.3	0.81	0.82	0.69	1.32	15.2
Cincinnati Milacron	12	16	5	27	0.36	2.22	27.4	38	67	151	53.8	-3.04	0.61	NA	1.01	18.8
Clark Equipment	12	20	17	NM	0.00	0.00	17.3	-15	66	126	76.0	-5.40	-1.36	NA	1.05	58.1
Danaher	12	23	12	18	0.00	0.00	28.4	15	37	82	20.6	0.47	1.26	0.89	1.95	6.2
Kennametal	06	27	23	22	1.16	4.36	10.8	-15	68	113	60.2	2.00	1.20*	1.69	1.66	4.8
Snap-on Tools	12	29	16	17	1.08	3.77	42.4	-11	70	226	46.1	1.75	1.69	1.69	2.05	8.8
SPX	12	19	15	12	0.40	2.08	13.9	47	50	127	57.1	-1.40	1.67	1.26	1.55	12.3
Stanley Works	12	40	15	19	1.32	3.30	45.4	-2	49	249	35.4	2.31	2.16	2.31	2.64	6.4



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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1993 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1992 EST	1992 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	NUMBER	1992 TURN-OVER %	1991 ACTUAL	IBES 1992 ANALYST EST.	BASED ON 5-YEAR TREND	IBES CONSENSUS	VARIATION %
SPECIAL MACHINERY																
GROUP AVERAGE		34	18	44	0.67	1.77	41.0	18	65	222	81.8	0.62	1.54	2.56	2.34	15.6
Applied Materials	10	36	12	33	0.00	0.00	39.1	138	84	167	285.0	0.76	1.09*	4.34	1.67	6.0
Briggs & Stratton	06	51	21	14	1.68	3.31	14.5	15	78	210	65.1	2.52	3.56*	3.56	3.83	3
Caterpillar	12	57	38	NM	0.60	1.06	101.0	29	70	446	74.8	-4.00	-1.43	NA	2.44	36.1
Deere	10	39	36	301	2.00	5.11	76.3	-18	78	446	84.8	-0.27	0.13	0.11	1.98	34.8
Dover	12	45	14	20	0.88	1.98	57.2	3	61	286	27.6	2.15	2.26	2.54	2.63	4.2
FMC	12	50	12	10	0.00	0.00	35.6	5	62	262	43.4	4.77	5.04	5.05	5.20	5.2
General Signal	12	56	26	15	1.80	3.22	19.7	7	77	227	59.9	3.32	3.78	4.63	4.31	3.9
Goulds Pumps	12	24	11	16	0.80	3.40	21.1	2	58	115	111.2	1.51	1.44	1.70	1.60	5.0
Harnischfeger Industries	10	17	21	9	0.40	2.30	29.0	-22	77	197	68.5	2.08	1.95*	3.44	1.67	10.2
Ingersoll-Rand	12	32	16	20	0.70	2.20	104.5	16	63	393	52.4	1.46	1.55	1.84	1.87	7.0
Interlake	12	4	-10	NM	0.00	0.00	22.0	31	44	97	48.6	-1.31	-0.64	NA	0.29	62.1
Joy Technologies	02	11	1	26	0.00	0.00	31.5	-28	56	53	35.9	-0.10	0.42	NA	1.16	17.2
Pentair	12	40	24	14	0.98	2.45	10.5	0	65	111	88.1	3.02(b)	2.96	3.19	3.26	6.7
Stewart & Stevenson Services	01	35	9	26	0.20	0.58	32.5	14	63	184	177.9	1.18	1.35	1.77	1.71	2.3
Timken	12	28	33	75	1.00	3.62	30.4	18	52	200	35.2	-1.21	0.37	0.73	1.32	40.2
Tyco Laboratories	06	40	23	19	0.36	0.91	46.2	13	64	230	48.2	2.57	2.06*	2.43	2.48	4.4
Varity	01	23	10	63	0.00	0.00	25.2	78	52	151	84.3	-7.87	0.37	0.56	2.39	16.3
(d) TEXTILES																
GROUP AVERAGE		22	13	25	0.37	1.54	31.2	54	51	106	72.2	-0.26	0.90	1.14	1.78	10.8
Albany International	12	14	9	63	0.35	2.43	25.6	-9	50	93	41.3	0.41	0.23	0.17	0.76	28.9
Burlington Industries Equity	09	14	7	NM	0.00	0.00	67.5	NA	70	61	NA	-9.58	-2.42*	NA	1.40	10.7
Delta Woodside Industries	06	15	12	9	0.40	2.76	26.4	-23	50	97	97.1	1.27	1.62*	1.01	1.54	17.5
DWG	04	14	3	38	0.00	0.00	25.9	324	13	30	94.3	-0.29	0.36	NA	1.75	NM
Fieldcrest Cannon	12	18	23	11	0.00	0.00	12.0	71	46	74	128.1	0.30	1.66	0.74	1.95	5.1
Guilford Mills	06	25	15	14	0.60	2.40	13.8	14	48	75	49.3	1.02	1.85*	1.44	2.21	6.3
Interface	12	12	12	18	0.24	1.94	17.3	4	71	67	77.2	0.52(b)	0.70	0.64	1.00	14.0
Shaw Industries	06	27	7	29	0.30	1.13	66.0	61	58	207	83.3	0.58	0.93*	1.06	1.49	4.7
Springs Industries	12	36	33	15	1.20	3.31	17.6	15	42	172	38.7	1.53	2.48	1.84	3.23	6.8
Unifi	06	42	11	27	0.60	1.42	39.7	27	63	181	40.3	1.62	1.56*	2.22	2.42	2.9
16 METALS & MINING																
INDUSTRY AVERAGE		30	21	25	0.67	1.96	50.4	18	58	205	64.9	-0.60	0.73	1.94	1.94	60.4
(a) ALUMINUM																
GROUP AVERAGE		38	35	25	1.10	3.13	72.5	-5	60	296	64.4	1.42	1.01	1.65	2.20	97.0
Aluminum Co. of America	12	70	57	23	1.60	2.28	85.7	10	78	523	91.1	0.71	2.99	1.56	4.95	25.3
Amax	12	17	24	NM	0.80	4.67	87.5	-14	68	275	62.3	0.34	-1.01	NA	0.40	145.0
Kaiser Aluminum	12	9	10	17	0.20	2.25	57.3	-16	11	29	17.4	2.03	0.51	NA	0.30	183.3
Reynolds Metals	12	54	50	35	1.80	3.32	59.7	-1	81	357	86.6	2.60	1.54	1.75	3.14	34.4
(b) STEEL																
GROUP AVERAGE		28	17	31	0.59	1.73	41.4	25	60	152	55.1	-2.22	0.01	1.95	1.58	70.0
Allegheny Ludlum	12	32	12	20	0.88	2.77	32.9	15	44	113	30.9	1.25	1.61	1.51	2.23	20.6
Armco	12	6	5	NM	0.00	0.00	103.4	36	62	176	47.5	-3.89	-0.93	NA	0.15	260.0
Bethlehem Steel	12	15	7	NM	0.00	0.00	90.5	30	69	215	83.1	-10.41	-2.95	NA	0.57	117.5
Carpenter Technology	06	49	33	30	2.40	4.90	8.2	3	63	107	46.2	3.52	1.63*	4.58	3.33	14.1
Commercial Metals	08	25	20	21	0.52	2.10	10.7	15	44	48	15.6	1.12	1.16*	1.46	1.62	19.1
Inland Steel Industries	12	23	31	NM	0.00	0.00	35.2	20	71	173	64.3	-9.88	-3.83	NA	0.37	224.3
Lukens	12	41	20	17	1.00	2.45	14.4	75	65	148	77.3	1.68	2.38	2.49	3.24	12.0
Nucor	12	70	18	39	0.28	0.40	43.3	57	72	259	43.0	1.50	1.79	1.86	2.73	9.5
Quanex	10	19	12	69	0.52	2.70	13.0	-7	81	105	108.7	1.02	0.28*	0.80	1.13	29.2
USX-U. S. Steel Group	12	31	31	NM	1.00	3.23	59.5	32	74	251	85.9	-10.00	-0.45	NA	2.43	53.1
Weirton Steel	12	4	8	NM	0.00	0.00	26.2	25	37	24	9.2	-3.49	-1.68	NA	-0.30	NM
Worthington Industries	05	22	7	20	0.48	2.18	59.6	-5	44	202	49.4	0.94	1.09	0.97	1.40	10.7
(c) OTHER METALS																
GROUP AVERAGE		29	15	18	0.57	1.69	53.3	22	53	250	82.1	1.04	1.82	2.02	2.41	24.4
Asarco	12	24	36	22	0.80	3.32	41.4	13	56	239	80.8	1.12	1.09	0.81	2.25	42.7
Cyprus Minerals	12	30	21	14	0.80	2.69	39.3	31	55	272	120.1	0.72	2.16	1.91	3.48	23.3
Magma Copper	12	13	15	9	0.00	0.00	31.0	127	36	100	121.0	-3.76	1.42	2.05	1.94	22.7
Newmont Gold	12	33	8	35	0.05	0.15	104.9	-18	NA	NA	13.9	1.20	0.94	1.21	1.15	23.5
Newmont Mining	12	38	4	26	0.60	1.57	68.1	-5	32	275	45.7	1.39	1.46	1.10	1.40	24.3
Phelps Dodge	12	48	29	12	1.65	3.47	70.2	43	74	485	138.0	3.93	4.06	5.12	4.88	19.7
Precision Castparts	03	19	19	12	0.12	0.64	17.9	-40	68	126	55.4	2.67	1.62	1.90	1.80	14.4
17 NONBANK FINANCIAL																
INDUSTRY AVERAGE		181	121	16	0.97	2.46	67.1	15	54	226	56.5	7.89	7.08	10.59	9.16	17.6
FINANCIAL SERVICES																
GROUP AVERAGE		513	331	14	0.92	2.10	96.8	9	60	313	60.9	19.93	17.62	23.03	22.76	7.7
Alexander & Alexander Services	12	26	10	22	1.00	3.86	40.8	26	71	180	39.2	-0.25	1.19	1.07	1.42	16.2
Allegiant	12	120	119	13	0.00(d)	0.00	6.5	10	57	82	6.7	3.33	9.25	6.08	10.50	20.2
American Express	12	23	15	17	1.00	4.37	477.7	13	65	692	61.2	1.59	1.31	1.21	2.52	5.2
Bear Stearns	06	17	11	6	0.57(d)	3.44	105.2	1	56	233	79.3	1.18	2.57*	2.01	2.52	8.3
Beneficial	12	62	46	11	2.80	4.52	25.9	-5	73	258	48.8	5.80	5.85	5.88	6.90	2.8
Berkshire Hathaway	12	10725	6990	34	0.00	0.00	1.1	19	11	129	3.1	384.00	315.00	434.86	425.00	NM
Block & Mack	04	39	5	23	1.00	2.55	105.9	2	66	397	49.4	1.49	1.74	2.01	1.96	2.0

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL		1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST.	BASED ON 5-YEAR TREND	1993 ESTIMATES	
									HOLDINGS %	NUMBER					IBES CON- SENSUS	VARIA- TION %
Broad Edwards (A. G.)	09	25	14	14	0.28	1.10	31.9	30	50	103	74.0	1.32	1.80*	1.39	2.92	5.1
	02	25	12	10	0.52	2.05	45.0	-15	43	143	64.6	2.35	2.46	3.28	2.71	8.1
Equifax	12	19	4	18	0.52	2.77	82.3	18	63	246	51.3	0.66	1.05	0.91	1.26	4.8
Fannie Mae	12	74	24	13	1.60	2.16	273.0	7	87	912	69.1	5.33	5.88	8.94	6.68	1.9
Federal Home Loan Mortgage	12	47	15	14	0.76	1.61	180.0	3	76	452	67.7	3.08	3.41	3.84	4.09	3.2
First Financial Management	12	38	19	18	0.10	0.26	58.3	48	71	274	73.7	1.92	2.16	2.96	2.42	3.3
Loews	12	117	91	11	1.00	0.86	65.1	3	52	400	31.0	13.14	10.61	12.74	12.38	6.0
Marsh & McLennan	12	92	16	22	2.70	2.93	72.6	15	61	420	31.2	4.18	4.27	4.28	4.72	3.8
Merrill Lynch	12	60	44	8	1.20	1.99	103.3	3	59	384	112.2	6.02	8.00	6.16	6.57	7.0
Morgan Stanley Group	01	53	33	9	0.96	1.81	76.1	-14	44	247	63.5	5.93	5.72	6.35	5.69	12.1
PaineWebber Group	12	24	20	7	0.48	1.99	43.1	5	56	119	138.5	3.15	3.63	4.47	2.97	12.8
Primerica	12	48	34	9	0.80	1.68	110.3	23	73	384	54.1	4.27	5.18	5.80	5.52	4.3
Salomon	12	37	30	8	0.64	1.71	115.6	25	65	342	65.5	3.90	4.44	6.60	3.93	18.3
Schwab (Charles)	12	25	6	14	0.24	0.96	37.9	-19	43	105	113.0	1.27	1.75	1.69	1.62	17.9
Student Loan Marketing Assn.	12	66	11	16	1.00	1.51	89.9	-13	85	403	73.5	3.55	4.24	5.14	4.94	1.6
Transamerica	12	47	37	12	2.00	4.28	78.3	19	64	287	30.4	1.14	3.86	1.96	4.34	3.9
INSURANCE																
GROUP AVERAGE		45	34	19	1.13	2.76	52.9	22	53	195	48.0	3.38	2.85	3.99	3.64	14.8
Aetna Life & Casualty	12	46	70	16	2.76	6.05	110.1	4	73	407	52.1	4.59	2.94	2.99	4.36	16.5
AFLAC	12	32	13	15	0.44	1.39	82.0	6	49	188	39.5	1.82	2.18	2.24	2.54	3.2
American General	12	54	42	11	2.08	3.83	108.5	22	75	443	32.7	4.25	4.78	4.99	5.21	1.9
American International Group	12	115	57	16	0.56	0.49	211.5	16	49	747	39.5	7.28	7.28	8.60	8.37	2.4
American National Insurance	12	45	67	10	2.04	4.51	26.5	10	18	61	8.6	4.76	4.44	5.10	4.68	3.0
Aon	12	50	29	13	1.68	3.34	65.3	27	51	228	25.1	3.71	3.82	4.20	4.15	4.1
Berkley (W. R.)	12	44	26	16	0.36	0.82	18.0	45	67	87	76.0	2.61	2.78	2.49	3.00	7.0
Capital Holding	12	66	39	10	1.32	1.99	47.1	6	70	332	46.8	5.33	6.33	6.48	7.00	2.0
Chubb	12	89	44	15	1.60	1.79	87.4	17	71	506	67.2	6.32	5.77	6.98	6.47	3.9
Cigna	12	57	79	17	3.04	5.36	71.7	-7	81	419	47.4	6.34	3.38	3.67	5.31	8.1
Cincinnati Financial	12	61	31	20	1.04	1.69	49.7	72	31	114	21.3	2.94	3.07	3.41	3.36	4.8
CNA Financial	12	94	85	42	0.00	0.00	61.8	-4	NA	NA	6.8	9.80	2.22	3.84	3.90	23.3
Conseco	12	41	17	10	0.08	0.19	24.8	34	54	91	231.7	4.22(b)	4.08	7.23	5.07	9.5
Continental Corp.	12	28	37	NM	1.00	3.62	54.8	0	75	286	68.1	0.96	-2.10	NA	0.78	101.3
Equitable	12	12	9	61	0.20	1.65	142.4	NA	8	36	NA	NA	0.20	NA	0.81	44.4
Equitable of Iowa	12	37	25	11	0.72	1.95	14.5	79	40	63	34.2	2.19	3.37	3.60	3.76	4.3
Geico	12	62	18	30	0.60	0.96	70.7	56	84	124	6.4	2.70	2.08	2.77	2.87	6.6
General Re	12	111	46	19	1.80	1.63	84.6	6	82	550	58.6	7.46	5.69	7.31	6.73	5.5
Hartford Steam Boiler	12	55	19	31	2.12	3.85	20.7	-6	48	164	26.0	3.53	1.77	2.53	2.90	6.2
Horace Mann Educators	12	27	12	15	0.20	0.75	28.9	19	44	78	32.6	1.57	1.82	NA	2.07	3.9
I.C.H.	12	4	1	NM	0.00	0.00	48.2	46	8	37	51.3	-0.11	0.00	NA	0.05	NM
Independent Insurance Group	12	15	27	138	0.88	5.82	13.2	-25	17	33	12.8	2.18	0.11	0.32	2.07	4.3
Jefferson-Pilot	12	41	33	13	1.36	3.30	50.7	8	46	254	36.1	3.42	3.23	4.44	3.40	3.8
Kemper	12	28	40	11	0.92	3.32	49.0	-26	40	146	75.7	4.25	2.59	1.63	3.48	11.5
Lincoln National	12	70	62	14	2.92	4.16	42.0	29	69	297	42.7	4.60	4.84	4.65	5.49	9.8
NWNL	12	46	44	9	1.48	3.24	12.0	47	57	89	91.7	3.21(b)	5.00	4.50	5.48	7.3
Ohio Casualty	12	62	45	15	2.68	4.34	18.0	25	54	120	46.7	6.02	4.10	4.66	5.12	10.2
Old Republic International	12	25	20	11	0.40	1.61	47.2	41	68	136	37.8	2.36(b)	2.28	3.38	2.51	2.4
Orion Capital	12	30	29	9	0.74	2.45	8.4	26	90	76	56.0	3.82(b)	3.47	3.63	4.14	6.6
Pioneer Financial Services	12	6	12	12	0.00(c)	0.00	6.7	-8	12	18	104.2	1.02	0.50	0.62	0.65	35.4
Progressive	12	80	22	17	0.60	0.75	19.3	35	64	99	48.5	1.22	4.67	2.68	5.71	18.0
Provident Life & Accident	12	26	31	9	1.00	3.86	45.1	10	45	101	19.0	2.53	2.90	6.49	3.16	8.5
Reliance Group Holdings	12	6	4	14	0.32	5.22	74.6	48	14	26	8.8	-1.60	0.45	0.45	0.60	95.0
Safeco	12	56	38	14	1.64	2.94	62.8	15	66	282	69.4	4.14	4.02	4.67	4.67	4.9
Selective Insurance Group	12	21	23	11	1.12	5.27	13.4	29	37	50	43.0	1.99(b)	1.94	1.84	2.14	10.3
St. Paul	12	74	60	20	2.72	3.68	42.0	0	81	372	47.5	9.35	3.76	5.68	7.31	8.2
Torchmark	12	52	14	15	1.07	2.07	72.7	27	51	323	35.5	3.13	3.54	4.01	3.93	3.3
Transatlantic Holdings	12	52	23	18	0.24	0.47	22.9	33	47	95	30.6	3.09	2.84	NA	3.56	7.6
Travelers	12	24	40	NM	1.60	6.63	105.4	13	63	302	75.5	2.87	-0.72	NA	1.87	17.1
20th Century Industries	12	29	10	13	0.52	1.78	51.4	40	33	89	19.1	2.02	2.18	3.25	2.25	7.1
Unitrin	12	39	38	15	1.20	3.11	51.8	8	37	121	25.5	2.58	2.65	NA	2.99	7.4
UNUM	12	51	24	15	0.66(c)	1.30	67.4	26	69	301	48.7	3.08	3.34	5.13	3.72	2.7
USF&G	12	14	10	NM	0.20	1.47	84.5	88	25	200	106.0	-2.15	-1.16	NA	0.29	103.4
USLife	12	50	67	9	1.80	3.64	15.0	3	55	210	50.6	4.83	5.30	5.48	5.62	3.0
Washington National	12	23	31	13	1.08	4.62	9.9	48	61	47	33.1	-0.33	1.75	NA	2.03	3.4
Zenith National Insurance	12	17	16	11	1.00	5.97	19.0	0	56	44	23.3	2.28	1.46	1.71	1.81	13.3
SAVINGS & LOAN																
GROUP AVERAGE		14	21	7	0.32	1.73	55.1	-6	59	150	92.0	-1.17	1.10	2.38	1.76	60.5
Ahmanson (H. F.)	12	17	23	9	0.88	5.14	116.2	-1	87	275	55.1	2.06	1.84	1.80	1.91	8.9
CalFed	12	2	31	NM	0.00	0.00	25.7	-33	24	36	156.9	-5.15	-1.34	NA	0.21	100.0
Coast Savings Financial	12	8	19	5	0.00	0.00	16.1	2	65	54	105.3	2.68	1.68	1.62	1.87	12.8
Dime Savings Bank of N. Y.	12	5	12	4	0.00	0.00	23.2	45	39	42	103.5	-10.27	1.28	NA	0.68	19.1
Glenfed	06	1	20	NM	0.00	0.00	34.2	-70	23	40	131.0	-6.79	-3.53*	NA	-0.39	328.2
Golden West Financial	12	42	26	10	0.26	0.62	63.6	-4	66	293	40.4	3.76	4.41	4.71	4.67	3.2
Great Western Financial	12	15	17	10	0.92	5.98	130.8	-13	81	318	63.3	2.25	1.52	1.46	1.90	8.4
Standard Federal Bank	12	23	19	8	0.48	2.12	31.1	25	83	139	80.4	2.11	2.96	2.33	3.25	3.7

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE																
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	1993 ESTIMATES							
									INSTITUTIONAL HOLDINGS % NUMBER	1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS IBES CON- SENSUS	VARIA- TION %	
18 OFFICE EQUIPMENT & COMPUTERS																
INDUSTRY AVERAGE		28	14	20	0.31	0.71	90.9	24	55	249	201.5	0.79	0.93	1.91	1.91	15.4
(a) BUSINESS MACHINES & SERVICES																
GROUP AVERAGE		22	8	19	0.36	1.14	42.6	21	56	146	140.4	1.00	1.23	1.22	1.54	8.7
Anacomp	09	4	0	9	0.00	0.00	39.7	2	37	55	93.6	0.42	0.42*	0.24	0.51	7.8
CUC International	01	27	1	32	0.00	0.00	67.8	69	83	210	65.8	0.37	0.83	0.59	1.07	5.1
Deluxe	12	46	10	19	1.40	3.02	83.7	17	59	382	29.4	2.18	2.45	2.55	2.76	2.9
Egghead	03	10	8	17	0.00	0.00	17.0	-40	53	53	352.6	0.92	0.59	0.91	0.82	11.0
HON Industries	12	23	5	18	0.40	1.74	32.4	20	27	55	20.2	1.02	1.25	1.52	1.42	5.6
Intelligent Electronics	01	9	8	28	0.00	0.00	36.8	-46	42	99	389.1	1.11	0.33	1.01	0.85	23.5
Merisel	12	11	7	15	0.00	0.00	29.2	37	59	73	251.2	0.43	0.70	0.25	0.94	8.5
MicroAge	09	8	10	9	0.00	0.00	5.8	2	50	38	186.0	0.75	0.89*	1.03	1.39	8.6
Miller (Herman)	05	17	11	25	0.52	3.13	25.2	-5	55	93	56.6	-0.14	0.66	0.44	1.15	18.3
Pitney Bowes	12	39	12	19	0.78	2.00	157.0	22	76	531	34.6	1.80	2.05	2.01	2.30	2.2
Reynolds & Reynolds	09	51	20	16	0.96	1.89	14.5	86	60	134	60.5	2.13	3.25*	3.12	3.80	3.7
Standard Register	12	19	12	15	0.60	3.10	28.7	40	73	94	41.5	1.14	1.30	1.04	1.50	8.7
Tech Data	01	23	7	19	0.00	0.00	15.5	66	53	78	244.0	0.88	1.24	1.16	1.55	6.5
(b) COMPUTERS & PERIPHERALS																
GROUP AVERAGE		27	18	15	0.39	0.65	100.0	22	55	283	235.2	0.73	0.65	2.35	2.12	23.9
Amdahl	12	7	12	NM	0.10	1.38	112.7	-53	42	184	74.3	0.04	0.01	0.01	0.60	56.7
Apple Computer	09	58	18	13	0.48	0.83	118.6	2	68	567	285.2	2.58	4.33*	4.67	4.57	7.0
AST Research	06	20	12	9	0.00	0.00	31.1	23	32	94	439.3	2.13	2.16*	3.36	1.75	10.9
Ceridian	12	16	-2	15	0.00	0.00	42.7	47	82	157	78.2	-0.21	1.04	0.42	1.26	7.1
Commodore International	06	7	10	9	0.00	0.00	33.0	-54	25	63	154.0	1.73	0.82*	0.56	0.18	33.3
Compaq Computer	12	41	24	18	0.00	0.00	77.6	43	41	305	281.7	1.49	2.34	2.54	3.19	11.9
Conner Peripherals	12	20	13	9	0.00	0.00	58.7	28	64	195	261.8	1.57	2.32	3.96	2.68	11.2
Cray Research	12	24	29	20	0.00	0.00	26.3	-40	70	214	118.2	4.15	1.19	1.65	2.34	13.2
Data General	09	11	14	NM	0.00	0.00	33.1	-29	66	152	157.1	2.62	-1.91*	NA	0.37	129.7
Dell Computer	01	37	9	15	0.00	0.00	36.1	118	41	131	756.7	1.40	2.49	2.59	3.14	13.7
Digital Equipment	06	34	37	NM	0.00	0.00	128.2	-36	63	463	122.3	-5.08	-18.50*	NA	-2.21	63.3
Hewlett-Packard	10	67	31	19	0.80	1.20	251.7	17	54	766	79.1	3.02	3.49*	3.54	4.59	6.5
Intergraph	12	13	16	25	0.00	0.00	47.6	-29	53	159	131.8	1.47	0.51	0.74	0.95	18.9
International Business Machines	12	68	62	17	4.84	7.09	570.6	-23	46	1192	72.3	-0.99	3.97	4.34	5.26	12.2
Maxtor	03	19	8	7	0.00	0.00	27.1	312	37	64	519.1	0.27	2.59	1.25	2.93	15.4
Quantum	03	15	8	9	0.00	0.00	42.1	31	76	163	448.9	1.05	1.68	2.75	2.07	10.6
Seagate Technology	06	19	13	21	0.00	0.00	66.3	110	66	184	540.9	0.95	0.92*	0.54	3.19	5.6
Silicon Graphics	06	26	8	NM	0.00	0.00	57.0	47	67	161	139.5	0.73	-2.19*	NA	1.17	9.4
Storage Technology	12	22	22	23	0.00	0.00	40.9	-44	68	170	319.7	2.33	0.96	1.81	1.50	25.3
Sun Microsystems	06	32	15	19	0.00	0.00	98.4	13	67	308	363.9	1.85	1.71*	2.43	1.99	8.5
Tandem Computers	09	14	11	NM	0.00	0.00	110.2	27	70	241	81.8	0.33	-0.38*	NA	1.01	9.9
Tandy	06	30	22	13	0.60	2.00	63.2	-15	51	269	100.1	2.58	2.24*	2.47	2.57	6.6
Unisys	12	9	4	8	0.00	0.00	161.8	109	28	212	191.3	-9.37	1.02	NA	1.39	10.8
Wang Laboratories	06	1	0	NM	0.00	0.00	170.4	-83	30	110	101.9	-2.26	-2.11*	NA	0.15	93.3
Xerox	12	79	50	14	3.00	3.81	94.8	17	82	553	61.7	3.91	5.55	5.12	6.35	6.6
(c) COMPUTER SOFTWARE & SERVICES																
GROUP AVERAGE		37	10	29	0.10	0.37	124.4	34	54	289	196.9	0.70	1.20	1.95	1.86	5.0
Automatic Data Processing	06	52	9	28	0.46	0.88	140.2	15	69	527	35.4	1.63	1.84*	2.18	2.09	1.4
Comdisco	09	16	15	32	0.28	1.79	40.7	-25	48	98	46.2	2.03	0.49*	0.83	2.01	2.5
CompUSA	06	36	6	51	0.00	0.00	15.0	71	52	79	603.7	-1.58	0.71*	NA	0.79	2.5
Computer Associates Intl.	03	19	6	16	0.10	0.54	171.0	58	53	322	88.0	0.92	1.19	1.18	1.40	5.0
Computer Sciences	03	79	40	17	0.00	0.00	16.4	-1	82	228	85.2	4.12	4.69	5.27	5.40	4.1
Electronic Data Systems	12	33	14	25	0.36	1.09	216.2	9	48	392	46.0	1.17	1.35	1.56	1.55	1.9
First Data	12	32	7	25	0.03	0.09	110.0	NA	42	146	NA	1.13	1.30	NA	1.54	2.6
Lotus Development	12	21	9	16	0.00	0.00	41.5	-23	79	248	517.5	0.98	1.30	0.86	1.56	9.0
Microsoft	06	93	9	39	0.00	0.00	274.0	29	34	584	164.2	1.65	2.41*	3.71	3.12	2.6
Novell	10	31	3	38	0.00	0.00	298.1	6	70	548	203.2	0.55	0.82	1.26	1.11	3.6
Oracle Systems	05	22	3	30	0.00	0.00	140.4	56	47	250	218.5	0.43	0.75	0.74	1.04	8.7
Western Digital	06	7	4	NM	0.00	0.00	29.2	177	24	47	158.1	-4.59	-2.49*	NA	0.74	16.2
19 PAPER & FOREST PRODUCTS																
INDUSTRY AVERAGE		37	25	27	1.00	2.70	73.2	13	59	299	57.2	0.90	1.04	1.70	2.11	65.9
(a) FOREST PRODUCTS																
GROUP AVERAGE		43	24	21	1.01	2.47	87.8	36	59	352	82.0	-0.39	0.34	1.57	2.11	24.9
Boise Cascade	12	20	26	NM	0.60	3.02	37.9	-11	61	202	63.0	-2.46	-4.80	NA	-1.32	59.1
Georgia-Pacific	12	62	30	NM	1.60	2.60	88.1	16	64	481	92.7	-0.92	-0.20	NA	2.41	33.2
Louisiana-Pacific	12	58	24	18	0.80	1.37	54.5	99	54	301	107.4	1.03	3.22	1.88	4.17	12.2
Weyerhaeuser	12	39	18	22	1.20	3.08	203.7	43	57	570	56.5	-0.50	1.77	1.59	2.63	6.1
Willamette Industries	12	37	21	22	0.84	2.27	54.8	34	59	205	90.5	0.90	1.72	1.23	2.66	13.9
(b) PAPER																
GROUP AVERAGE		35	26	29	1.00	2.78	67.9	5	59	281	48.3	1.36	1.29	1.73	2.12	80.5
Bowater	12	24	23	NM	1.20	4.92	36.2	12	59	131	107.7	1.15	-2.08	NA	0.07	842.9
Champion International	12	28	40	NM	0.20	0.71	92.9	17	70	301	50.1	0.14	-0.75	NA	0.50	96.0
Chesapeake	12	21	16	25	0.72	3.45	23.3	-1	54	114	50.7	0.75	0.85	0.61	1.42	14.8
Consolidated Papers	12	40	21	31	1.28	3.18	43.8	10	23	122	20.4	2.10	1.30	1.65	2.08	12.1

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	NUMBER	1992 TURN-OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	1993 ESTIMATES		
														BASED ON 5-YEAR TREND	IBES CONSENSUS	VARIATION %
Plattfelter (P. H.)	12	18	10	14	0.70	3.86	44.0	-33	70	110	18.3	1.67	1.28	1.66	1.40	20.0
International Paper	12	65	54	19	1.68	2.57	122.3	0	64	611	86.7	3.61	3.50	3.76	4.59	18.3
James River Corp. of Virginia	12	19	27	83	0.60	3.16	81.6	-5	82	249	38.6	0.66	0.23	0.19	0.92	37.0
Kimberly-Clark	12	61	17	18	1.64	2.71	160.5	20	67	621	41.7	3.18	3.37	3.89	3.73	3.8
Kanville	12	9	7	46	0.00	0.00	48.7	18	32	72	23.7	-0.39	0.20	0.11	0.61	14.8
Lead	12	38	26	19	1.00	2.61	58.7	12	71	295	59.6	1.29	1.98	1.17	2.81	7.1
Patlatch	12	46	33	18	1.50	3.24	29.1	21	43	210	28.2	1.92	2.58	2.23	3.44	11.9
Picott Paper	12	37	29	17	0.80	2.14	73.9	7	69	378	61.3	-0.95	2.23	1.97	3.05	12.5
Union Camp	12	48	28	36	1.56	3.28	69.6	-4	72	435	64.8	1.80	1.33	1.41	2.50	22.8
Vestvaco	10	35	27	17	1.10	3.12	66.3	-10	53	278	24.6	2.10	2.06*	2.17	2.51	12.8

PUBLISHING & BROADCASTING

INDUSTRY AVERAGE		66	21	64	0.84	1.67	101.5	11	50	260	38.0	1.21	2.45	4.33	3.41	12.4
BROADCASTING																
GROUP AVERAGE		101	29	90	0.22	0.34	120.4	12	41	214	41.1	0.50	3.33	18.55	5.04	15.8
Television Systems	12	32	-47	NM	0.00	0.00	22.5	-8	37	45	19.6	-10.32(b)	-9.02	NA	-6.23	10.9
Capital Cities/ABC	12	454	235	19	0.20	0.04	16.4	3	82	443	32.7	22.33	24.49	28.22	29.43	5.4
BS	12	186	32	18	1.00	0.54	13.5	33	84	310	106.8	-6.11	10.59	8.88	14.92	6.0
omcast	12	18	0	NM	0.14(c)	0.79	135.2	11	26	215	50.7	-1.31	-1.16	NA	-0.98	20.4
aylord Entertainment	12	37	5	56	0.40	1.09	41.9	25	25	78	16.1	0.05	0.66	NA	1.03	9.7
ele-Communications	12	20	3	325	0.00	0.00	425.5	17	68	477	96.7	-0.28	0.06	NA	0.40	37.5
urner Broadcasting System	12	21	0	54	0.05	0.24	187.9	-3	4	44	2.4	0.06	0.39	NA	0.60	20.0
iacom	12	40	6	67	0.00	0.00	120.2	16	7	102	3.8	-0.41	0.59	NA	1.16	16.4
PUBLISHING																
GROUP AVERAGE		49	18	52	1.15	2.34	92.1	11	54	282	36.4	1.56	1.98	2.14	2.54	10.6
ommerce Clearing House	12	19	5	23	0.70	3.64	34.8	-6	29	67	9.8	0.89	0.83	0.73	0.97	10.3
ow Jones	12	30	15	22	0.76	2.57	101.2	15	41	252	30.1	0.71	1.37	NA	1.71	8.2
un & Bradstreet	12	57	12	18	2.28	3.98	178.3	-1	74	668	28.6	2.85	3.10	3.15	3.49	2.6
annett	12	54	11	22	1.28	2.39	144.2	18	79	562	34.2	2.00	2.45	2.40	2.85	3.5
night-Ridder	12	61	23	21	1.40	2.30	54.5	17	70	329	41.5	2.55	2.89	2.89	3.40	6.2
McGraw-Hill	12	61	20	NA	2.24	3.69	49.1	6	65	368	41.7	3.03	11	2.94	11	11
††Because Business Week is owned by McGraw-Hill, the Scoreboard does not include forecasts of the company's earnings																
Media General	12	18	8	25	0.44	2.43	26.1	6	58	77	19.2	-2.39	0.72	0.69	1.01	11.9
Meredith	06	26	19	431	0.64	2.47	15.6	-8	53	144	31.4	1.36	0.06*	0.12	1.16	19.8
ew York Times	12	28	14	33	0.56	2.00	78.6	19	52	266	37.1	0.61	0.85	0.49	1.37	14.6
leader's Digest Association	06	56	8	29	1.20	2.16	119.7	15	37	313	18.9	1.74	1.95*	NA	2.29	2.2
scripps (E. W.)	12	25	9	24	0.40	1.58	74.6	5	19	77	8.4	0.87	1.04	1.02	1.32	6.8
ime Warner	12	28	22	NM	0.28	1.01	371.1	27	67	529	72.7	-2.40	-1.37	NA	-0.55	47.3
imes Mirror	12	32	15	21	1.08	3.39	128.6	3	48	310	20.6	0.64	1.50	0.85	1.80	9.4
ribune	12	50	8	26	0.96	1.91	65.2	24	51	268	32.3	1.94	1.92	2.02	2.56	9.0
Vashington Post	12	224	82	20	4.20	1.88	11.8	15	53	180	18.7	10.00	11.40	9.92	13.44	4.3
Vestern Publishing Group	01	19	10	19	0.00	0.00	20.9	25	68	107	137.7	0.62	1.00	0.57	1.32	3.0

SERVICE INDUSTRIES

INDUSTRY AVERAGE		25	10	23	0.35	1.38	55.2	15	54	170	69.0	0.92	1.21	1.37	1.52	9.2
CONSTRUCTION & ENGINEERING																
GROUP AVERAGE		25	11	25	0.47	2.13	37.7	-2	53	190	69.5	1.32	1.06	1.57	1.36	9.9
Apogee Enterprises	02	11	9	20	0.28	2.55	13.2	-14	26	33	34.7	0.63	0.54	0.60	0.83	7.2
G&G	12	18	8	12	0.50	2.74	56.0	-27	68	231	41.8	1.46	1.56	1.71	1.61	4.3
luor	10	47	14	28	0.40	0.86	81.3	7	57	400	64.1	1.83	1.65*	2.50	2.16	7.9
oster Wheeler	12	31	15	22	0.60	1.95	35.6	16	61	233	63.6	1.22	1.41	3.22	1.65	5.5
Granite Construction	12	22	14	44	0.20	0.92	11.7	-20	40	75	124.4	1.51	0.49	0.51	0.82	17.1
Jacobs Engineering Group	09	27	6	25	0.00	0.00	23.5	2	39	97	50.3	0.86	1.11*	1.72	1.20	5.0
McDermott International	03	23	14	23	1.00	4.40	51.6	35	82	262	84.9	1.75	0.97	NA	1.35	23.7
Morrison Knudsen	12	22	12	29	0.80	3.64	28.9	-11	55	185	92.1	1.30	0.77	0.74	1.27	8.7
INDUSTRIAL DISTRIBUTION																
GROUP AVERAGE		29	12	24	0.30	1.28	34.9	42	56	137	77.7	0.88	1.48	1.40	1.75	6.4
Arrow Electronics	12	27	12	16	0.00	0.00	27.9	138	49	109	137.3	0.28	1.71	1.12	2.10	6.2
Avnet	06	33	24	23	0.60	1.83	35.5	21	87	153	72.7	1.72	1.42*	2.08	2.04	4.4
Genuine Parts	12	33	10	17	1.00	3.02	114.5	2	63	392	29.0	1.81	1.93	2.16	2.14	2.3
Hainger (W. W.)	12	58	17	22	0.66	1.14	52.6	6	61	316	42.4	2.37	2.59	2.92	3.00	2.3
Full-Mark Electronics	12	25	9	10	0.00	0.00	10.1	NA	30	13	NA	-0.51	2.58	NA	2.08	8.2
Laman	12	10	11	10	0.44	4.35	18.1	26	38	79	57.0	0.93	0.98	0.79	1.15	6.1
Marshall Industries	05	39	22	13	0.00	0.00	8.5	51	80	91	48.1	2.25	3.02	2.74	3.44	4.4
Office Depot	12	34	6	57	0.00	0.00	58.1	38	63	215	89.7	0.27	0.60	0.69	0.83	6.0
Premier Industrial	05	39	6	24	0.48	1.23	57.5	33	20	121	8.7	1.37	1.60	1.71	1.80	4.4
Staples	01	40	8	53	0.00	0.00	18.9	53	88	143	362.0	0.48	0.76	0.96	1.09	6.4
United Stationers	08	16	12	23	0.40	2.50	18.5	115	50	54	45.4	0.64	0.71*	0.60	1.11	8.1
Univar	02	12	9	21	0.30	2.61	19.6	-6	16	35	7.9	-0.29	0.54	0.71	0.99	20.2
Villcox & Gibbs	12	12	9	16	0.00	0.00	13.6	29	78	60	31.6	0.12	0.75	0.27	0.98	4.1



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EARNINGS PER SHARE																
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST.	1992 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1992 MARKET VALUE CHANGE %	1993 ESTIMATES							
									INSTITUTIONAL HOLDINGS % NUMBER	1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST.	BASED ON 5-YEAR TREND	FROM ANALYSTS		
														IBES CON- SENSUS	VARI- ATION %	
(c) POLLUTION CONTROL																
GROUP AVERAGE		21	7	22	0.28	1.00	183.0	0	41	309	51.0	-0.25	0.78	1.01	1.09	8.5
Air & Water Technologies	10	15	9	NM	0.00	0.00	24.8	-26	59	83	43.2	-1.15	-0.11	NA	0.50	14.0
Browning-Ferris Industries	09	25	9	22	0.68	2.75	168.1	25	64	404	62.2	0.42	1.11*	0.77	1.35	5.9
Chemical Waste Management	12	21	5	27	0.20	0.98	204.9	-2	15	162	27.5	0.49	0.76	0.79	0.98	4.1
ICF International	02	7	2	17	0.00	0.00	21.3	6	16	28	71.9	-2.25	0.42	0.48	0.58	15.3
Waste Management	12	40	9	23	0.52	1.30	495.9	-4	50	867	50.2	1.23	1.73	1.98	2.03	3.0
(d) PRINTING & ADVERTISING																
GROUP AVERAGE		32	8	19	0.57	1.75	54.7	23	70	182	67.9	1.67	1.80	2.05	2.07	3.1
Advo-System	09	27	7	24	0.00	0.00	12.8	12	78	61	105.3	1.06	1.11*	1.46	1.34	3.7
Banta	12	39	19	15	0.64	1.64	13.2	34	72	125	105.5	2.16	2.61	2.90	2.92	1.0
Donnelley (R. R.) & Sons	12	32	12	21	0.52	1.63	155.5	28	71	425	26.9	1.32	1.55	1.49	1.75	5.1
Interpublic Group	12	34	8	22	0.46	1.37	74.9	17	76	245	40.4	1.30	1.52	1.75	1.75	1.7
Omnicom Group	12	39	13	16	1.24	3.18	28.5	23	82	172	61.4	2.08	2.37	2.63	2.69	4.3
Valassis Communications	06	21	-9	13	0.56	2.68	43.3	NA	38	61	NA	2.12	1.62*	NA	1.97	2.3
(e) OTHER SERVICES																
GROUP AVERAGE		19	10	22	0.22	0.92	34.2	0	51	127	67.7	0.79	0.87	1.00	1.25	15.0
Adia Services	12	16	15	19	0.16	1.00	12.5	-11	15	30	13.2	0.67	0.86	0.78	1.18	2.3
CDI	12	8	5	35	0.00	0.00	19.7	9	27	40	12.5	-0.39	0.22	0.25	0.57	29.9
Handleman	04	13	8	10	0.40	2.99	33.3	-14	69	177	59.1	1.21	1.33	1.16	1.52	3.9
InaCom	12	14	12	10	0.00	0.00	8.2	38	42	32	43.5	0.56	1.30	1.08	1.79	12.2
JWP	12	4	10	NM	0.00	0.00	40.8	-75	49	182	186.5	1.54	-0.62	NA	0.33	87.9
Kelly Services	12	41	12	32	0.76	1.87	30.1	30	39	112	33.7	1.28	1.26	1.34	1.70	4.1
Manpower	12	15	3	26	0.00	0.00	72.7	-1	77	112	39.3	-0.73	0.56	0.48	0.79	6.3
Olsten	12	35	8	27	0.32	0.92	15.7	42	54	96	48.3	0.93	1.31	1.15	1.74	1.7
Pinkerton's	12	19	14	16	0.00	0.00	8.2	-39	57	54	202.9	1.66	1.19	1.42	1.49	15.0
Safety-Kleen	12	31	9	31	0.34	1.10	57.6	21	59	310	44.8	0.90	1.00	1.10	1.32	5.3
Service Corp. International	12	18	9	16	0.40	2.24	76.9	0	75	255	60.8	1.03	1.14	1.22	1.30	2.3
22 TELECOMMUNICATIONS																
INDUSTRY AVERAGE		43	19	20	1.76	3.90	322.1	14	40	506	42.0	1.90	2.48	2.55	2.77	5.3
(a) EQUIPMENT & SERVICES																
GROUP AVERAGE		36	12	25	0.52	1.47	404.0	40	53	496	79.0	0.42	1.16	1.95	1.62	10.0
American Telephone & Telegraph	12	47	14	16	1.32	2.80	1332.9	23	33	1064	29.1	0.40	2.88	1.33	3.21	2.2
McCaw Cellular Communications	12	33	8	NM	0.00	0.00	182.6	12	43	228	89.9	-2.04	-1.90	NA	-1.07	34.0
MCI Communications	12	37	12	17	0.10	0.27	262.0	25	68	581	106.8	2.01	2.21	3.65	2.55	2.7
Scientific-Atlanta	06	37	13	53	0.18	0.49	23.5	131	63	169	115.8	0.05	0.70*	0.23	1.24	5.0
Sprint	12	26	12	14	1.00	3.79	219.3	12	58	436	53.3	1.68	1.91	2.58	2.17	4.0
(b) TELEPHONE COMPANIES																
GROUP AVERAGE		46	22	18	2.23	4.84	290.6	4	35	510	27.8	2.47	2.98	2.73	3.22	3.0
Alltel	12	48	14	19	1.48	3.06	88.3	38	31	248	25.6	2.34	2.52	2.64	2.84	2.3
Ameritech	12	67	32	14	3.52	5.22	269.1	7	30	578	19.0	4.39	4.92	4.88	5.20	1.2
Bell Atlantic	12	47	18	15	2.60	5.53	432.6	6	30	657	28.9	3.41	3.21	3.33	3.44	2.3
BellSouth	12	49	28	15	2.76	5.65	492.2	-4	25	695	19.8	3.11	3.37	3.21	3.58	2.3
Centel	12	34	14	56	0.90	2.65	85.6	-2	53	276	71.1	1.31	0.61	0.50	0.84	11.9
Cincinnati Bell	12	16	9	21	0.80	4.89	61.9	-15	26	100	18.0	0.63	0.77	0.74	1.01	7.9
GTE	12	34	13	16	1.82	5.29	929.2	4	49	929	28.4	1.69	2.11	2.15	2.30	1.7
Nynex	12	82	47	13	4.64	5.65	206.1	3	37	663	28.1	2.98	6.34	4.01	6.71	1.9
Pacific Telesis Group	12	43	20	15	2.18	5.10	404.4	-3	36	731	27.4	2.58	2.87	2.92	3.03	3.3
Rochester Telephone	12	32	18	16	1.54	4.79	31.8	0	25	154	23.2	2.36	2.04	2.24	2.25	4.9
Southern New England Telecomms.	12	34	20	13	1.76	5.20	63.2	8	30	194	20.4	2.06	2.55	2.33	2.67	1.9
Southwestern Bell	12	69	31	16	2.92	4.21	299.6	7	37	768	27.2	3.85	4.40	4.33	4.73	3.4
US West	12	38	24	12	2.12	5.63	413.4	0	41	640	24.4	1.38	3.04	2.21	3.20	1.0
23 TRANSPORTATION																
INDUSTRY AVERAGE		35	20	27	0.54	1.43	50.2	8	61	210	95.5	-0.90	0.41	2.38	2.20	22.0
(a) AIRLINES																
GROUP AVERAGE		42	28	30	0.21	0.52	46.5	-8	59	235	139.5	-6.14	-5.55	0.81	1.02	69.0
Alaska Air Group	12	17	18	NM	0.20	1.19	13.3	-22	61	94	95.2	0.27	-3.86	NA	0.56	130.0
America West Airlines	12	0	-12	NM	0.00	0.00	24.0	-78	4	16	88.4	-10.39	-5.27	NA	-1.50	118.0
AMR	12	65	54	NM	0.00	0.00	75.0	1	84	459	198.4	-3.54	-2.95	NA	4.30	52.0
Delta Air Lines	06	53	49	NM	1.20	2.26	49.7	-19	65	327	138.6	-7.73	-10.60*	NA	-4.80	34.0
Southwest Airlines	12	27	9	30	0.06	0.21	92.4	72	65	261	80.5	0.32	0.89	0.81	1.42	11.3
US Air Group	12	120	62	NM	0.00	0.00	24.2	-16	70	302	202.1	-14.31	-10.88	NA	7.19	71.0
(b) RAILROADS																
GROUP AVERAGE		43	19	15	0.93	1.91	100.2	14	60	355	67.8	-0.66	2.80	3.07	3.34	6.5
Burlington Northern	12	43	15	15	1.20	2.82	87.9	6	62	403	90.4	-3.96	2.88	2.42	3.77	9.0
Chicago & North Western Hlds.	12	21	3	14	0.00	0.00	41.8	NA	24	50	NA	-3.42	1.54	NA	1.94	11.3
Consolidated Rail	12	46	33	15	1.10	2.40	80.5	6	85	372	116.9	-2.70	3.03	2.95	3.58	7.8
CSX	12	69	29	15	1.52	2.21	103.1	20	61	533	53.9	-0.75	4.54	5.07	5.51	2.9

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1992 EST	1992 DIVI- DEND RATE	YIELD %	SHRS. OUT MILS.	1992 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1992 TURN- OVER %	1991 ACTUAL	IBES 1992 ANALYST EST	BASED ON 5-YEAR TREND	1993 ESTIMATES	
									%	NUMBER					IBES CON- SENSUS	VARI- ATION %
Illinois Central	12	24	8	13	0.60	2.47	42.7	8	66	148	93.1	1.64	1.89	7.92	2.15	3.7
Kansas City Southern Inds.	12	48	22	17	0.60	1.25	20.7	58	55	126	52.5	2.16	2.78	2.78	3.22	3.7
Norfolk Southern	12	63	30	15	1.80	2.88	140.8	4	60	572	32.7	0.20	4.12	1.60	4.70	4.0
Santa Fe Pacific	12	14	5	16	0.10	0.74	180.8	-3	62	312	67.3	0.54	0.82	0.50	1.03	12.6
Union Pacific	12	60	22	17	1.48	2.46	203.3	17	63	679	35.4	0.31	3.59	1.29	4.15	3.6
TRANSPORTATION SERVICES GROUP AVERAGE		32	18	18	0.51	1.64	33.1	33	69	170	77.3	0.87	1.71	1.82	2.35	11.4
Air Express International	12	27	5	17	0.14	0.52	11.3	101	47	64	65.5	1.20	1.60	1.74	1.88	10.6
Airborne Freight	12	19	15	NM	0.30	1.57	19.2	-21	67	100	154.9	1.40	-0.06	NA	1.03	25.2
Federal Express	05	49	29	22	0.00	0.00	54.1	27	74	273	96.7	-2.11	2.25	0.54	3.25	7.7
PHH	04	39	26	12	1.20	3.12	16.9	18	78	145	36.1	2.94	3.21	4.28	3.53	1.7
Ryder System	12	27	18	19	0.60	2.26	74.1	32	82	297	65.5	0.75	1.42	0.75	1.86	9.1
Trinity Industries	03	34	17	19	0.80	2.36	22.8	39	66	142	44.9	1.04	1.81	1.80	2.55	14.1
TRUCKING & SHIPPING GROUP AVERAGE		25	17	43	0.46	1.49	23.6	0	58	107	97.6	1.27	1.46	2.23	1.97	15.5
Alexander & Baldwin	12	23	16	12	0.88	3.83	46.3	-18	50	156	47.7	2.00	1.89	1.98	2.20	7.3
American President	12	40	30	10	0.60	1.50	13.8	-9	71	136	152.5	3.65	3.97	3.97	4.09	14.4
Arkansas Best	12	17	7	17	0.01	0.06	23.5	NA	50	42	NA	0.61	0.95	0.53	1.41	6.4
Carolina Freight	12	14	18	285	0.20	1.40	6.6	-29	72	50	86.7	0.23	0.05	0.04	0.86	31.4
Consolidated Freightways	12	18	19	NM	0.00	0.00	35.2	17	70	163	70.3	-1.52	-0.01	NA	1.09	22.9
GATX	12	30	29	10	1.30	4.33	19.5	5	75	127	53.1	3.56	2.87	4.02	3.25	1.8
Greyhound Lines	12	12	5	11	0.00	0.00	9.9	26	52	39	99.7	NA	1.02	NA	1.40	7.1
Hunt (J. B.) Transport Services	12	24	8	23	0.20	0.83	37.5	29	34	75	64.0	0.85	1.05	1.07	1.25	3.2
Preston	12	4	14	NM	0.00	0.00	5.8	-37	31	27	181.1	-0.59	-0.61	NA	0.45	73.3
Roadway Services	12	71	25	19	1.30	1.82	39.7	17	64	257	116.5	3.27	3.72	5.03	4.33	2.5
TNT Freightways	12	21	14	18	0.14	0.68	16.8	NA	55	54	NA	0.95	1.14	NA	1.46	4.8
Yellow Freight System	12	28	17	19	0.94	3.37	28.1	5	74	163	104.8	0.95	1.45	1.20	1.81	10.5
UTILITIES & POWER INDUSTRY AVERAGE		30	20	15	1.62	5.30	115.5	4	40	271	44.8	1.40	2.17	2.29	2.38	6.1
ELECTRIC, WATER & COGENERATION GROUP AVERAGE		30	20	14	1.74	5.67	137.2	2	38	287	40.7	1.91	2.28	2.31	2.46	5.0
Allegheny Power System	12	47	32	13	3.20	6.75	56.8	11	37	257	43.2	3.61	3.68	3.48	3.78	2.9
American Electric Power	12	31	23	13	2.40	7.71	184.5	-9	28	405	32.3	2.70	2.48	2.54	2.75	4.4
American Water Works	12	25	19	12	0.92	3.68	31.0	-5	47	107	27.4	2.27	2.12	2.22	2.42	1.7
Baltimore Gas & Electric	12	23	18	14	1.44	6.26	143.3	14	34	289	31.3	1.52	1.63	1.22	1.83	3.8
Boston Edison	12	27	19	13	1.64	6.13	44.7	15	28	134	56.3	1.96	2.06	1.92	2.17	2.8
Carolina Power & Light	12	53	31	12	3.16	5.92	80.4	-1	31	327	36.9	4.53	4.47	4.74	4.56	2.4
Centerior Energy	12	19	20	11	1.60	8.37	142.0	-2	25	147	40.8	1.71	1.67	1.41	1.83	7.7
Central & South West	12	28	15	14	1.54	5.50	188.3	4	46	446	34.8	1.99	2.00	1.99	2.16	1.9
Cincinnati Gas & Electric	12	24	19	12	1.65	6.82	85.9	-8	25	209	41.8	2.21	1.97	2.50	2.10	13.8
CMS Energy	12	18	14	16	0.48	2.65	80.0	-1	63	153	92.5	-3.26	1.10	1.16	1.64	17.1
Commonwealth Edison	12	25	27	10	1.60	6.53	213.0	-38	53	422	66.7	0.08	2.34	0.20	2.21	22.2
Consolidated Edison Co. of N. Y.	12	32	21	13	1.90	6.03	233.9	13	26	395	31.5	2.32	2.44	2.44	2.53	2.0
Detroit Edison	12	33	21	9	1.98	6.07	147.0	-6	35	324	35.1	3.64	3.68	3.71	3.22	3.7
Dominion Resources	12	39	25	14	2.46	6.39	162.9	4	37	376	27.2	2.94	2.70	2.73	3.03	2.6
Duke Power	12	36	20	14	1.80	5.05	204.9	2	44	415	26.1	2.60	2.46	2.69	2.70	3.0
Entergy	12	32	25	13	1.60	4.96	175.1	7	65	378	50.6	2.64	2.56	2.98	2.71	2.2
Florida Progress	12	32	20	15	1.94	6.06	87.1	7	31	243	38.6	2.16	2.08	2.04	2.31	3.5
FPL Group	12	35	21	14	2.44	6.97	181.4	1	35	441	40.0	2.31	2.59	2.30	2.76	2.9
General Public Utilities	12	27	22	12	1.60	5.98	110.8	-2	59	270	52.5	1.96	2.28	2.26	2.51	4.4
Gulf States Utilities	12	16	17	21	0.00	0.00	114.1	56	57	129	54.0	0.52	0.78	0.52	1.02	14.7
Houston Industries	12	44	27	14	3.00	6.78	129.5	0	59	454	43.8	3.28	3.17	2.90	3.52	4.0
Illinois Power	12	22	20	15	0.80	3.70	75.6	-8	52	151	63.8	1.04	1.45	0.93	1.92	7.8
Long Island Lighting	12	25	20	12	1.74	6.86	111.4	3	39	192	58.5	2.15	2.11	2.32	2.22	2.7
New England Electric System	12	37	23	13	2.16	5.78	65.0	16	35	234	29.1	2.77	2.80	2.94	2.90	1.4
New York State Electric & Gas	12	31	23	13	2.16	7.00	69.3	16	29	195	40.8	2.36	2.40	3.56	2.51	2.4
Niagara Mohawk Power	12	19	16	12	0.80	4.18	137.0	8	42	257	46.8	1.49	1.64	3.16	1.76	3.4
Nipco Industries	12	25	16	13	1.24	4.89	66.8	-1	58	210	61.9	1.94	1.98	3.08	2.13	4.2
Northeast Utilities	12	26	16	13	1.76	6.84	133.8	22	26	231	31.0	2.12	2.03	2.05	2.13	3.3
Northern States Power	12	43	26	17	2.52	5.81	62.6	1	31	274	30.4	3.02	2.61	2.69	3.10	5.2
Ohio Edison	12	23	16	13	1.50	6.67	152.6	10	32	253	28.2	1.60	1.69	1.55	1.79	3.4
Oklahoma Gas & Electric	12	32	23	12	2.66	8.22	40.3	-26	35	177	58.0	3.27	2.67	3.11	2.68	7.5
Pacific Gas & Electric	12	32	19	12	1.76	5.52	424.5	0	40	438	22.4	2.24	2.56	3.01	2.69	4.5
PacifiCorp	12	20	12	13	1.54	7.90	267.5	-21	27	391	35.4	1.86	1.51	1.65	1.69	7.7
Pennsylvania Power & Light	12	27	15	13	1.60	5.84	151.7	4	25	233	20.7	2.01	2.04	2.17	2.13	1.4
Philadelphia Electric	12	26	18	12	1.40	5.38	220.4	1	38	348	42.5	2.15	2.09	0.82	2.32	2.6
Pinnacle West Capital	12	20	17	12	0.00	0.00	87.1	13	56	159	38.1	-3.91	1.69	1.42	1.89	5.8
Potomac Electric Power	12	23	16	14	1.60	6.92	113.7	-5	17	250	36.6	1.87	1.68	1.60	1.87	5.3
Public Service Co. of Colorado	12	28	19	11	2.00	7.21	58.0	6	31	188	39.0	2.48	2.43	2.50	2.46	3.3
Public Service Enterprise Group	12	29	20	14	2.16	7.35	234.2	3	30	385	38.4	2.43	2.15	2.23	2.44	4.1

The
Harold W.
McGrav, Jr.
Prize in
Education

Three who make a difference: Announcing the 1992 winners of the McGraw Prize in Education.



The Harold W. McGraw, Jr. prize was established in 1988, in celebration of McGraw-Hill's 100th anniversary and in honor of our chairman emeritus.

Each year, up to three \$25,000 prizes are awarded to people who have made a difference in education.

For 1992, the Board of Judges selected these three individuals for distinguished contributions to the advancement of education.

Dr. Shirley A. Hill



The way math traditionally has been taught — through memorization, drill and practice — has failed to arm students with the understanding they need for success in a world increasingly reliant on science and technology. Challenged to revitalize and restore American student achievement, Shirley Hill, as president of the National Council of Teachers of Mathematics in the 1980s, developed a blueprint for reform.

The mathematics-curriculum standards she helped to formulate stress reasoning and creativity, the use of computers and problems that reflect students' interests. Designed to help all students build broad-based mathematical power, the plan is today accepted across the nation.

Dr. Hill, Curators' Professor of Education and Mathematics at the University of Missouri-Kansas City, has rallied public support for mathematics education, which is key to scientific competency and economic growth in the 1990s and beyond.

Dr. Thomas W. Payzant



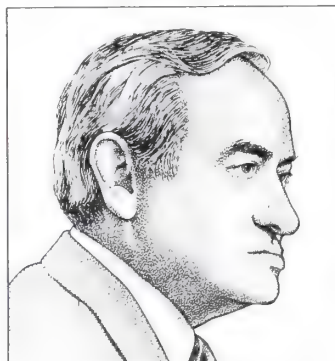
As superintendent of San Diego City Schools, Thomas W. Payzant runs America's eighth-largest urban system and one of its most ethnically diverse. Students speak more than 60 different native languages. One in ten requires special education courses and many come from disadvantaged families.

For a decade, Dr. Payzant has met the needs of San Diego students, parents and teachers while coping with increasingly difficult budgetary demands. He instituted a rigorous college-preparatory curriculum, helped schools take on a larger role in their governance and strengthened the district's commitment to raising the scholastic achievement of all children. He was instrumental in initiating a program linking schools directly with public agencies that provide services for students and their families.

National school reform

requires vision, innovation and superintendents like Dr. Payzant who focus on better use of resources and forge workable coalitions

Dr. Edward Zigler



Edward Zigler was co-founder of Head Start, the federally funded program that has helped ensure greater numbers of children enter school ready to learn. That program has improved the self-esteem, nutrition and socialization skills of 12 million youngsters from poor families since 1965.

Now, Dr. Zigler, Sterling Professor of Psychology at Yale University, has created a program that includes the needs of elementary-school-age children as well. His Schools of the Twenty-First Century, using existing public schools year-round, provide early childhood education, along with sound nutrition, parent education, and before- and after-school activities for elementary-school students. Children enrolled in these schools have a more positive attitude toward learning, a reduced need for special education and a better attendance record.

For 30 years, Dr. Zigler has been instrumental in helping children from all backgrounds receive the care and learning experiences essential for success in school, and in life.

For more information, write to The Harold W. McGraw, Jr. Prize in Education, McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020.



INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1992 EST	1992 DIVIDEND RATE	YIELD %	SHRS OUT MILLS	1992 MARKET VALUE CHANGE	INSTITUTIONAL HOLDINGS %	1992 TURN-OVER	1991 ACTUAL	1993 ESTIMATES			
												BASED ON 5-YEAR TREND	IBES 1992 ANALYST EST	IBES CONSENSUS	VARIATION %
San Diego Gas & Electric	12	23	12	13	1.44	6.16	114.3	5	15	157	21.0	1.77	1.74	1.86	2.8
SCEcorp	12	44	27	12	2.80	6.42	223.9	-5	32	505	27.0	3.21	3.53	3.56	4.4
Southern	12	36	23	12	2.20	6.11	316.5	5	28	508	26.9	2.78	2.97	2.98	3.12
Texas Utilities	12	43	31	13	3.04	7.13	215.8	5	54	553	60.5	-1.98	3.17	3.25	4.0
Union Electric	12	37	21	13	2.24	6.14	102.1	-6	36	289	35.6	3.01	2.75	2.83	2.91
Wheelabrator Technologies	12	37	11	27	0.08	0.22	93.0	10	28	172	26.6	1.46	1.35	1.85	1.61
Wisconsin Energy	12	25	15	14	1.30	5.12	102.3	-2	33	259	28.6	1.87	1.79	1.88	1.96
Zurn Industries	03	37	19	16	0.88	2.36	12.4	2	53	155	63.0	0.91	2.30	1.76	2.59
(b) GAS, OIL & TRANSMISSION															
GROUP AVERAGE		29	18	18	1.30	4.29	55.7	7	47	225	55.9	-0.01	1.85	2.22	2.16
Arkla	12	9	7	30	0.28	3.25	122.3	-28	39	273	94.4	0.09	0.29	0.13	0.56
Atlanta Gas Light	09	34	20	15	2.08	6.07	24.2	-5	20	117	23.6	2.07	2.26*	2.15	2.40
Brooklyn Union Gas	09	33	23	16	1.94	5.95	28.8	9	26	120	22.5	2.18	2.02*	1.97	2.50
Columbia Gas System	12	21	21	10	0.00	0.00	50.6	20	60	181	66.5	-15.72	2.13	2.20	2.28
Consolidated Natural Gas	12	47	22	21	1.90	4.02	92.4	16	39	389	36.6	1.94	2.29	2.02	2.67
Eastern Enterprises	12	28	23	14	1.40	5.00	22.6	0	75	185	51.5	1.30	2.07	1.81	2.37
Enron	12	46	18	19	1.40	3.03	115.3	50	54	436	49.6	2.15	2.44	6.80	2.94
Enserch	12	15	10	34	0.80	5.42	65.9	9	65	206	55.6	0.07	0.43	0.26	0.73
MCN	12	26	13	12	1.68	6.46	26.8	9	37	141	40.7	1.42	2.19	1.57	2.33
National Fuel Gas	09	28	19	15	1.50	5.33	31.2	15	23	127	27.5	1.63	1.94*	1.96	2.10
Nicor	12	48	25	13	2.36	4.96	27.8	2	50	247	43.3	3.71	3.76	4.27	4.00
Pacific Enterprises	12	19	11	11	0.00	0.00	74.9	-26	40	211	61.2	-1.45	1.66	1.46	1.92
Panhandle Eastern	12	17	13	15	0.80	4.74	108.2	10	64	284	60.2	0.86	1.13	0.78	1.26
Peoples Energy	09	31	19	15	1.76	5.68	34.8	23	35	203	28.5	2.05	2.06*	2.20	2.40
Sonat	12	43	27	20	2.00	4.68	43.0	30	62	294	63.4	1.82	2.10	2.17	2.48
Transco Energy	12	13	10	25	0.60	4.49	32.3	-26	39	151	124.6	-6.58	0.54	NA	1.03
Williams	12	39	27	18	1.52	3.89	45.9	12	73	267	100.4	2.35	2.21	3.73	2.83

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

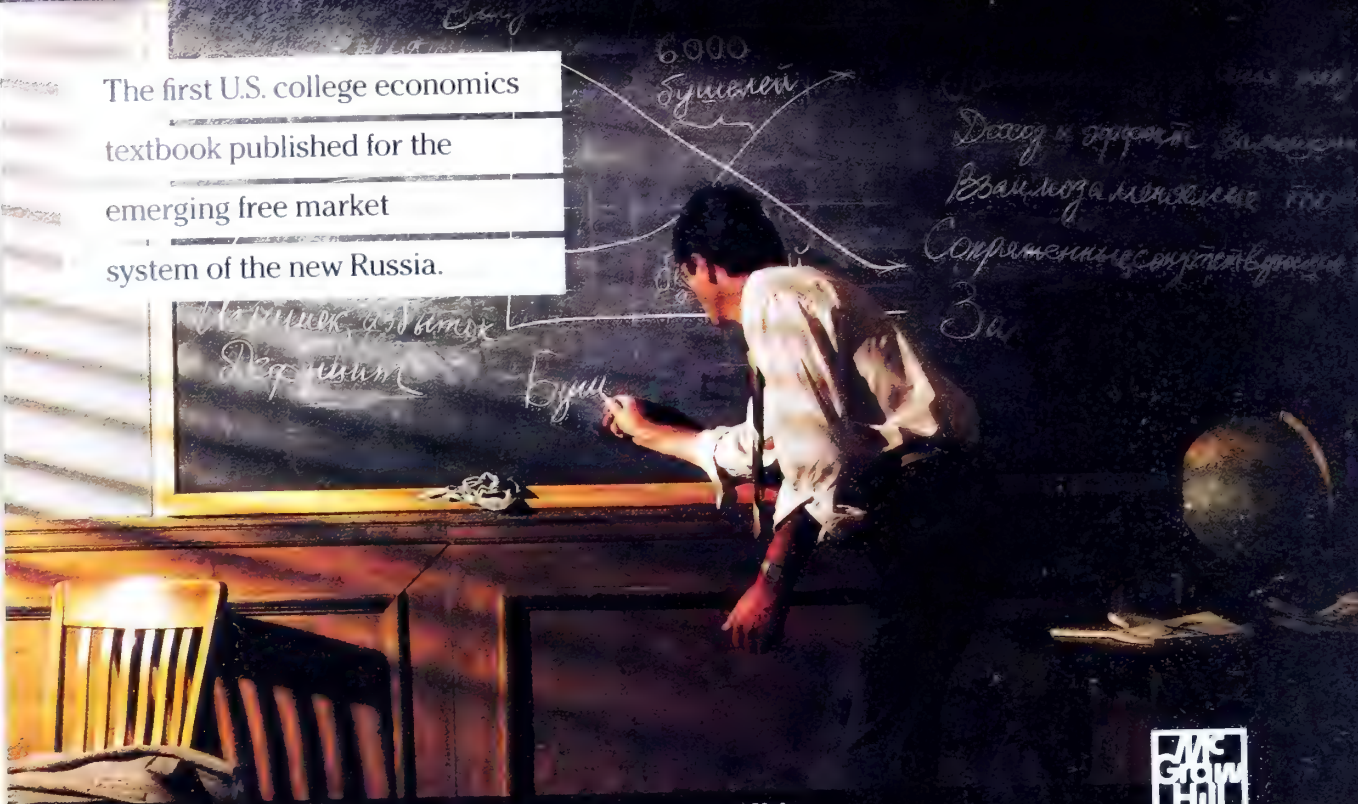
A	American Medical 12c	B	Boston Edison 24a	Champion Intl. 19b	Computer Sciences 18c	Delta Air Lines 23a	Emerson Electric 9a
A&P 10c	American National 17b	Baker Hughes 11c	Bowater 19b	Charming Shoppes 8	ConAgra 10b	Delta Woodside 15d	Engelhard 4
Abbott Laboratories 12d	American President 23d	Ball 7a	Briggs & Stratton 15c	Chase Manhattan 3a	Conner Peripherals 18b	Deluxe 18a	Enron 24b
Adia Services 21e	American Stores 10c	Baltimore G&E 24a	Bristol-Myers Squibb 12b	Chemical Banking 3a	Conseco 17b	Detroit Edison 24a	Enserch 24b
Advanced Micro 9d	American Water Works 24a	Banc One 3b	Broad 17a	Chemical Waste 21c	Consolidated Edison 24a	Dexter 4	Energy 24a
Advo-System 21d	Ameritech 22b	Bancorp Hawaii 3d	Brooklyn Union Gas 24b	Chesapeake 19b	Cons. Freightways 23d	Dial 5	Equifax 17a
Aetna Life & Casualty 17b	Ametek 9c	Bandag 2c	Brown Group 6a	Chevron 11b	Cons. Natural Gas 24b	Diamond Shamrock 11b	Equitable 17b
AFLAC 17b	Amgen 12b	Bank of Boston 3a	Brown-Forman 6c	Chicago & North Western 23b	Consolidated Papers 19b	Dibrell Brothers 6e	Equitable of Iowa 17b
Ahmanson (H.F.) 17c	Amoco 11b	Bank of New York 3a	Browning-Ferris 21c	Chiquita Brands Intl. 10b	Consolidated Rail 23b	Digital Equipment 18b	Ethyl 4
Air & Water Techs. 21c	AMP 9d	BankAmerica 3d	Bruno's 10c	Chrysler 2a	Consolidated Stores 8	Dillard 8	Exxon 11b
Air Express Intl. 23c	AMR 23a	Bankers Trust New York 3a	Brunswick 14d	Chubb 17b	Continental Bank 3b	Dime Savings Bank 17c	
Air Products & Chemicals 4	Anacomp 18a	Banta 21d	Burlington Coat Factory 8	Cigna 17b	Continental Corp. 17b	Disney (Walt) 14b	
Airborne Freight 23c	Anheuser-Busch 6c	Bard (C.R.) 12d	Burlington Industries 15d	Cincinnati Bell 22b	Cooper Industries 9a	Dole Food 10b	
Alaska Air Group 23a	Aon 17b	Barnett Banks 3c	Burlington Northern 23b	Cincinnati Financial 17b	Cooper Tire & Rubber 2c	Dollar General 8	Family Dollar Stores 8
Albany International 15d	Apogee Enterprises 21a	Baroid 11c	Burlington Resources 11b	Cincinnati G&E 24a	Coors (Adolph) 6c	Dominion Resources 24a	Fannie Mae 17a
Alberta-Culver 6d	Apple Computer 18b	Bausch & Lomb 12d		Cincinnati Milacron 15b	CoreStates Financial 3a	Donnelley (R.R.) 21d	Fay's 12a
Albertson's 10c	Applied Materials 15c	Baxter International 12d		Circuit City Stores 6b	Corning 15a	Dockscoll 10b	Federal Express 23c
Alko Standard 5	Archer Daniels 10b	Bear Stearns 17a		Circus Circus 14c	Costco Wholesale 8	Dover 15c	Federal Home Loan 1b
Alcoa 16a	Arco Chemical 4	Beckman Instruments 9c		Citicorp 3a	CPC International 10b	Dow Chemical 4	Federal Paper Board 1b
Alexander & Alexander 17a	Arkansas Best 23d	Becton, Dickinson 12d		Clark Equipment 15b	Crane 15a	Dow Jones 20b	Federal-Mogul 2b
Alexander & Baldwin 23d	Arvin Industries 2b	Bell Atlantic 22b		Clorox 6d	Cray Research 18b	Dresser Industries 11c	Federated Dept. Stores 1b
Allegheny 17a	Asarco 16c	BellSouth 22b		CMA Energy 24a	Crestar Financial 3c	Drug Emporium 12a	Ferraro 4
Allegheny Ludlum 16b	Ashland Oil 11b	Bemis 7b		CNA Financial 17b	Crown Central Petroleum 11b	Du Pont 4	FHP International 12a
Allegheny Power 24a	AST Research 18b	Beneficial 17a		Coast Savings 17c	Crown Cork & Seal 7a	Duke Power 24a	Fieldcrest Cannon 15b
Alliant Techsystems 15a	AT&T 22a	Bergens Brunswig 12a		Coastal 11b	Crystal Brands 6a	Dun & Bradstreet 20b	Figgie International 5
Allied Signal 5	Atlanta Gas Light 24b	Berkley (W.R.) 17b		Coca-Cola 6c	CSX 23b	Duracell International 15a	Fingerhut 8
Amc. 16a	Atlantic Richfield 11b	Berkshire Hathaway 17a		Coca-Cola Enterprises 6c	CUC International 18a	DWG 15d	First Bank System 3b
Amdahl 18b	Automatic Data 18c	Bethlehem Steel 16b		Colgate-Palmolive 6d	Cummins Engine 2b		First Brands 15a
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INVESTMENT OUTLOOK SCOREBOARD

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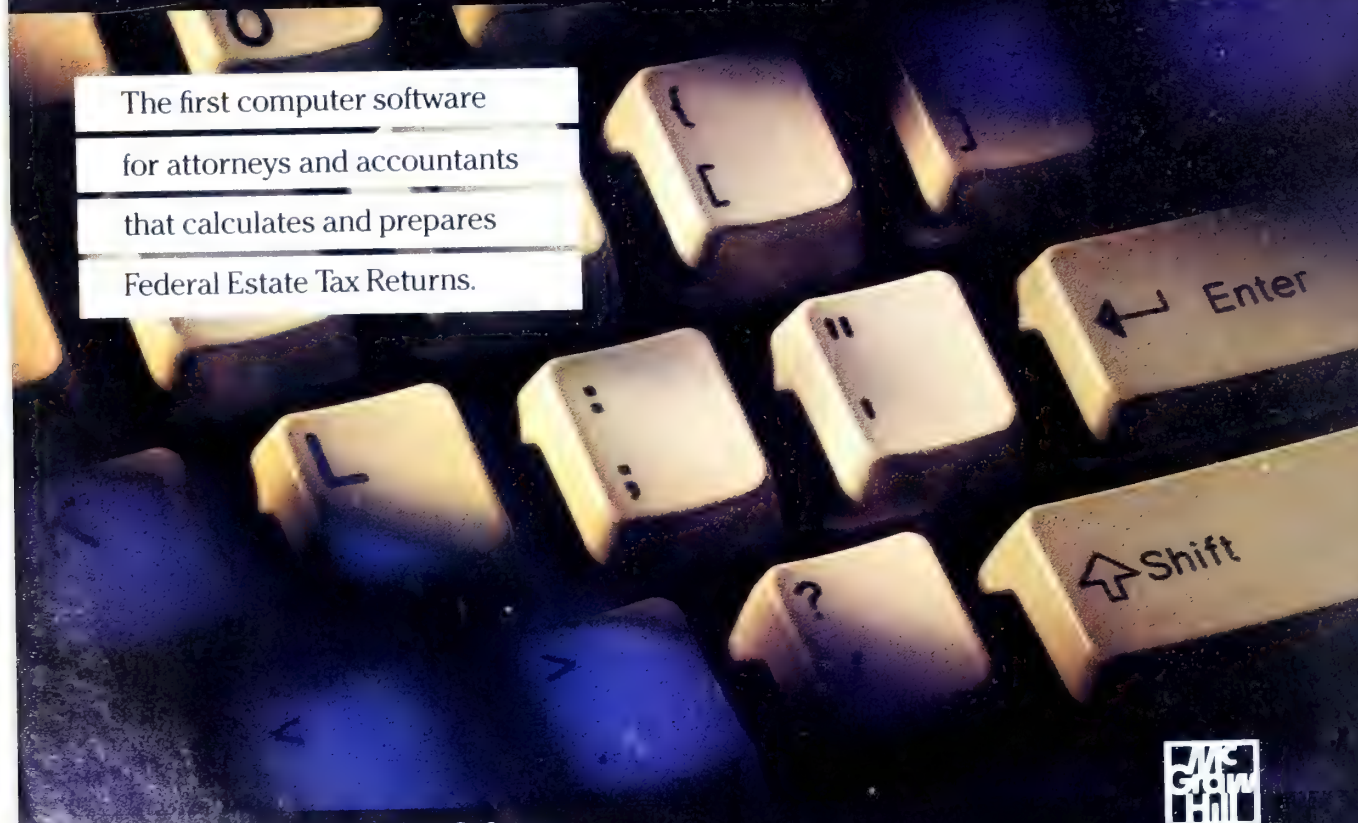
Number following each company name identifies the Scoreboard category under which it is listed

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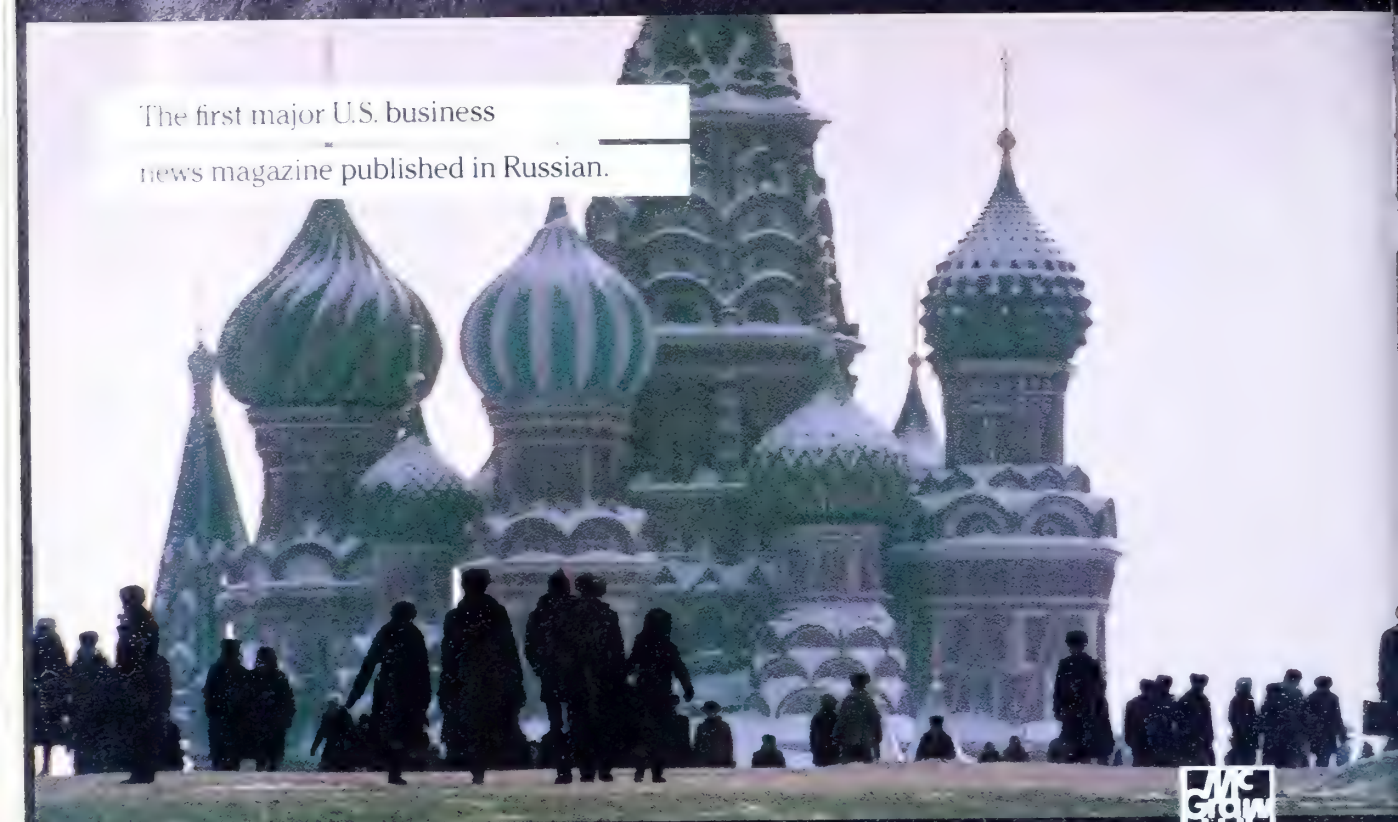
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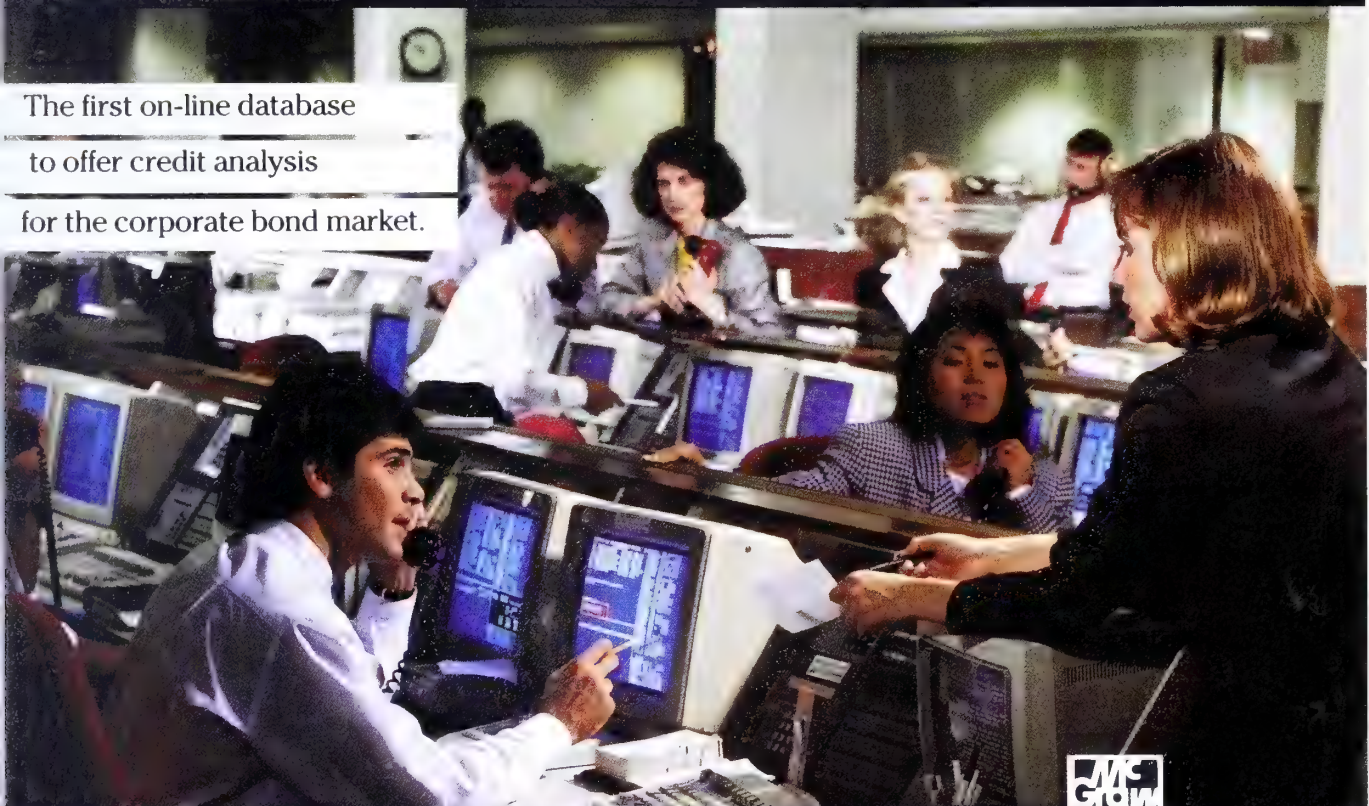
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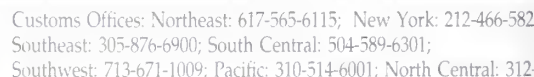
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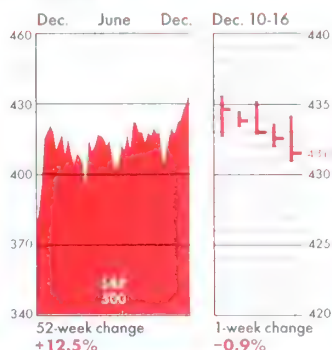


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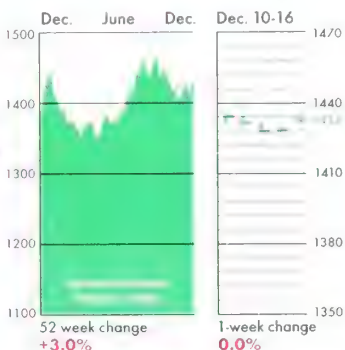
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one-third of the Dow's loss
y week. Please note we're in-
ing the S&P MidCap Index.
dex has 400 midsize compa-
at range from \$100 million
billion in market capitaliza-
Over the past 12 months, the
is up 15.7%, easily surpass-
e larger-cap Dow and S&P

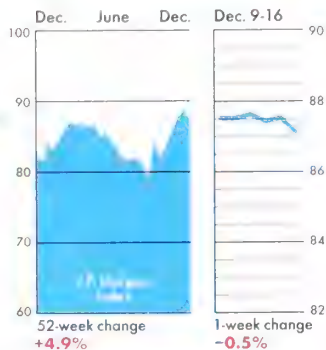
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3255.2	-2.1	11.9
STANDARD & POOR'S 500 (S&P 500)	155.1	-1.0	15.7
STANDARD & POOR'S MIDCAP INDEX	212.7	-1.9	19.9
STANDARD & POOR'S SMALLCAP INDEX	245.7	-1.1	14.0

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
DOW JONES INDUSTRIALS	2732.8	-0.7	13.2
NIKKEI INDEX	17,268.7	-0.8	-23.7
TSE COMPOSITE	3296.2	0.3	-1.1

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.29%	3.31%	4.22%
30-YEAR TREASURY BOND YIELD	7.44%	7.44%	7.76%
S&P 500 DIVIDEND YIELD	2.86%	2.84%	3.21%
S&P 500 PRICE/EARNINGS RATIO	23.9	24.1	21.4

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	417.9	416.9	Positive
Stocks above 26-week moving average	57.1%	61.0%	Negative
Speculative sentiment: Put/call ratio	0.40	0.35	Neutral
Insider sentiment: Vickers sell/buy ratio	1.95	1.95	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
MANUFACTURED HOUSING	20.8	38.6
SURE TIME	15.1	40.7
BUILDING MATERIALS	12.8	43.8
INSTRUMENTATION	12.6	28.1
TRANSPORTATION SERVICES	11.7	54.4

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
COMPUTER SYSTEMS	-8.4	-24.9
OIL AND GAS DRILLING	-6.3	26.7
COMPUTER SOFTWARE AND SERVICES	-5.4	24.1
EXPLORATION AND PRODUCTION	-4.3	-12.7
AIRLINES	-4.0	-9.2

Strongest stock in group

	% change 4-week	% change 52-week	Price
FLEETWOOD ENTERPRISES	22.4	40.9	46 1/2
HANDLEMAN	20.9	12.2	13 3/4
MASCO	15.4	41.5	29
HEWLETT-PACKARD	14.4	29.3	64 1/2
FEDERAL EXPRESS	12.2	53.3	55

Weakest stock in group

	% change 4-week	% change 52-week	Price
IBM	-13.5	-36.2	56 1/8
ROWAN	-10.6	34.1	7 3/8
NOVELL	-16.7	-1.8	26 3/4
ORYX ENERGY	-6.0	-17.7	19 3/4
DELTA AIR LINES	-8.0	-21.8	49

BRIDGE INFORMATION SYSTEMS INC

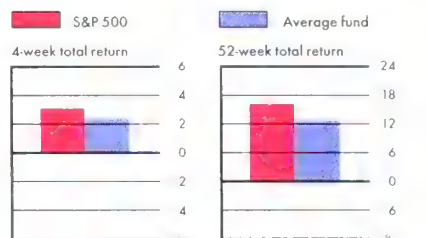
MUTUAL FUNDS

LEADERS

	4-week total return	%
WELLS FARGO GROWTH	19.4	
WELLS FARGO MIDCAP	10.2	
WELLS FARGO JAPANESE SMALL COMPANY	8.7	
	52-week total return	%
WELLS FARGO SELECT SAVINGS & LOAN	72.3	
WELLS FARGO MARK	57.4	
WELLS FARGO SELECT REGIONAL BANKS	53.2	

LAGGARDS

	4-week total return	%
NEWPORT TIGER	-9.0	
MORGAN STANLEY ASIAN EQUITY	-7.3	
T. ROWE PRICE NEW ASIA	-6.6	
	52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-61.5	
UNITED SERVICES GOLD SHARES	-52.5	
VAN ECK INTERNATIONAL INVESTORS	-29.4	



MORNINGSTAR INC

RELATIVE PORTFOLIOS

ar amounts
esent the present
e of \$10,000
sted one year ago
ch portfolio

entages indicate
day total returns

U.S. stocks
\$11,642
-1.01%

Treasury bonds
\$11,227
-0.13%

Money market fund
\$10,292
+0.05%

Foreign stocks
\$9,897
+0.17%

Gold
\$9,310
-0.07%

DATA RESOURCES INC

to on this page are as of market close Wednesday, Dec. 16, 1992, unless otherwise indicated
ry groups include S&P 500 companies only; performance and share prices are as of market close

Dec. 15. Mutual fund returns are as of Dec. 11. Relative portfolios are valued as of Dec. 15. A more
etailed explanation of this page is available on request

BILL CLINTON'S BALANCING ACT

Bill Clinton's first rounds of Cabinet appointments show that the President-elect correctly sees the distinction between the short-term problem of licking the recession and long-term structural problems in the U.S. economy. His selection of Senator Lloyd Bentsen (Tex.), Representative Leon E. Panetta (Calif.), former Congressional Budget Office Director Alice M. Rivlin, and investment bankers Robert E. Rubin and Roger C. Altman for key economic posts signals that the President-elect is serious about controlling the deficit. Clinton expects this group of fiscal conservatives to help him deal with the immediate problem of how to stimulate growth and get employment growing again while reassuring Wall Street that he's no big-spending liberal.

The next group of selections indicates that he is equally committed to confronting America's longer-term economic dilemma: how to make U.S. companies globally competitive and get wages and living standards growing again. Health care and the environment will be the responsibilities of strong-minded nominees: Donna E. Shalala, president of the University of Wisconsin, and Joan Browner, Florida's environmental chief. Both Robert B. Reich, Clinton's nominee for Labor Secretary, and Laura D'Andrea Tyson, his choice to head the Council of Economic Advisers, are proponents of investment in human capital. They hold that the U.S. should compete by raising the skill and education levels of its workforce, not by slashing wages and shipping jobs offshore.

The choice of Reich, a political scientist at Harvard's Kennedy School of Government, also suggests that Clinton is serious about a key ingredient in a high-skills strategy: forging European-style compacts among business, labor, and government—another interest of Reich's. Indeed, idea-man Reich is likely to bring big changes to the role of the Labor Dept., which, with the exception of William E. Brock, has been headed by lackluster appointees for over a decade.

Democratic National Committee Chairman Ron Brown is an able man, but questions have been raised about his law firm's lobbying activities for foreign clients. Brown might make a splendid Commerce Secretary, but the appointment could be seen as at variance with the rigid standards Clinton promised during the campaign. Overall, however, the selections rightly mix imaginative new ideas for the future with encouraging experience for the here and now.

THE MARKETS ARE APPLAUDING—SO FAR

Presidential elections take place every four years, but the financial markets vote every day. And because participants vote with their money, their message is always worth pondering. As *BUSINESS WEEK*'s editors and writers detail in the 1993 Investment Outlook, investors like what they're hearing from Bill Clinton (page 66).

They like the focus on economic growth and his attentiveness to the role that private investment plays in financing that growth. They like the emphasis on getting a long-term plan to reduce the budget deficit. And they like the investment-friendly leadership of his economic team.

Keeping the confidence of the markets is critical. If the bond market senses that Clinton is backpedaling on deficit reduction, investors will bolt—and interest rates will jump. That would raise the cost of capital and choke off the economic growth this country so desperately needs.

There are other areas where the market may turn on Clinton. The President-elect is already committed to boosting taxes on very high-income individuals. That is palatable to the markets as a method of deficit reduction but will be repudiated if it becomes the first step in a Democratic plan for a major redistribution of income.

Reregulation is another danger. Some Clinton advisers believe the Reagan and Bush Administrations went too far deregulating industry. But it would be a mistake for Clinton to embark on a reregulation campaign. It would undermine the U.S.'s global competitiveness, and it would be met with sharp disapproval in the stock and bond markets.

So far, the President-elect has investors on his side. He must keep them there if his program is to work.

A BIG STEP SIDeways FOR RUSSIAN REFORM

Economic reform in Russia has suffered a knockdown, not a knockout. On Dec. 14, President Boris N. Yeltsin, under pressure from conservative legislators, ousted reform-minded Acting Prime Minister Yegor T. Gaidar. Yeltsin replaced him with a former Communist *apparatchik* from the natural-gas industry, Viktor Chernomyrdin.

So ends Gaidar's program of shock therapy that only a year ago sounded like a great way to shake Russia free from the old order. Unpopular price hikes helped refill state coffers somewhat—but touched off an unexpected spiral of discontent that factories owed one another. Industries couldn't make payroll, and factories started shutting down. By summer, industrial managers got their man to head the central bank, which printed billions of useless rubles to prop up ailing industries. That, in turn, put Russia on the brink of hyperinflation. With no monetary control whatsoever, the International Monetary Fund withheld billions in Western aid that it is authorized to dole out.

Chernomyrdin's challenge will be to increase industrial production without resorting to bogus bailouts. He'll have to flunk if he abandons privatization. Even though he projects the image of a leftover communist mossback, Chernomyrdin says he's committed to reform and has competence in petroleum production. Perhaps his best hope would be to attract foreign investment in Russia's badly sagging oil patch. The resulting hard currency from exports could greatly help. So, a slowdown in the pace of reform is inevitable, and not for the best. Tossing millions of people out of work called for in step two of Gaidar's reform could have proved disastrous in a land as big and complicated as Russia.

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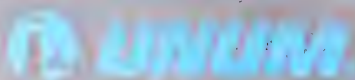
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